EARLY EUROPEAN BANKING IN INDIA

WITH

SOME REFLECTIONS ON PRESENT CONDITIONS

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BY

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CONTENTS

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PREFACE

This work attempts to fill a gap in our knowledge of European Banking in India. That history is utterly dark in its earliest and most important period. The existing accounts of the subject have been found incomplete and often incorrect in material points. Most of them have repeated the same story and sometimes the same mistakes. I have, therefore, been obliged to reject all second hand materials of this nature, and to rely on the very raw materials of history, *viz.*, the contemporary State records and newspaper accounts.

The Bengal Chamber of Commerce gave me the high privilege of access to its library, which contains extremely valuable old documents not to be found anywhere else in India. Similarly I was kindly given access to the records and library of the Imperial Bank of India, Calcutta. The manuscript records of the Bengal Government Record Office and of the Imperial Records Office in Calcutta, were examined by me for several years. Copies of documents in the India Office and in the library of the Institute of Bankers, London, were also obtained. In spite of many gaps in these sources, the material I have been able to collect is so vast that only a portion could be embodied in the present volume. Valuable data have been secured for cognate subjects, *e.g.*, the early history of the Calcutta Money Market, which are outside the scope of the present work. The portions relating to indigenous banking caused me much anxiety. There is no written account, published or unpublished, of this obscure and complex subject to which the student may refer for guidance. In order to study the recent history and the present organisation of indigenous banking and to trace its connection with European banking, I addressed a *questionnaire* to many Indian merchants and *shroffs* in Calcutta and in the

mofussil and also interviewed some of them. In spite of the natural reluctance of business men to divulge their methods of business many new and interesting facts have been elicited in this way, some of which have been incorporated in this book.

The consultation of old State records and newspapers was no easy task. Although carefully preserved, they are worm-eaten and pasted over with tissue paper to piece the crumbled portions together. They can be deciphered only with the greatest difficulty. There is no index to the newspapers. Files after files had to be waded through to find an obscure notice in the advertisement columns. The editorials of the time did not as a rule comment on current events, but concerned themselves with learned essays in the style of Bacon, translation of Sanskrit and Persian poems, long accounts of the old Court of Delhi and mail news from English papers. There is an index to the Government records down to 1800, but it is not satisfactory, as is only to be expected from the enormous mass of materials that had to be handled. For instance, the papers relative to a single transaction, *viz.*, the coinage of Spanish dollars into *Sicca* rupees, are distributed under as many as five headings :—(i) Bank ; (ii) Bank of Bengal ; (iii) Benjamin Mee (one of the partners of the Bengal Bank) ; (iv) Mint (v) Herbert Harris (Mint Master). It is difficult to compile a connected narrative from isolated references like these. Besides, there are a number of serious errors, not to speak of obvious slips. The Bengal Bank is systematically referred to as the Bank of Bengal with which it had nothing to do. But by a patient search extending over years, I have been able to discover a number of facts which are now presented together, I believe, for the first time. It has, I hope, been satisfactorily established that there was a Joint Stock Bank in India with limited liability long before the incorporation of similar institutions in England ; that the Bank of Bengal was not the first banker of the Government of India, nor

even was its progenitor, the Bank of Calcutta ; that the notes of private banks were recognised by the Government as early as the eighteenth century ; that the theft of bank notes was not an offence till the end of 1809 ; that the Government issued papers akin to Treasury Bills to carry on the War in the South with the help of the banks of the time ; that they readily came to the assistance of banks in times of crises ; that they appointed a Currency Committee with leading bankers as members as early as the eighteenth century. I have also reproduced interesting specimens of old bank notes, bank post bills and other instruments and have tried to show how far they followed similar instruments in England or the indigenous instruments of the country. An endeavour has been made to describe the methods and procedure followed by the pioneers of banking on European lines in India. My only hope is that this account, incomplete as it necessarily is from the disappearance of certain records, will draw the attention of other researchers to the wealth of materials on which I have worked, for the field is wide and the labourers few.

In the second part of the book I have attempted to deduce certain conclusions from the events recorded in the first part and apply them to the present day problems. After this part had been set in type, the report of the Royal Commission on Currency and Finance was published. It is a matter for sincere congratulation that all the members including Sir Purshotamdas Thakurdas emphasise the importance of banking development as the foundation for a thorough reorganisation of credit and currency. In this they simply enunciate the lesson taught by the history of the Calcutta Money Market during the last quarter of the eighteenth century as given in the present volume. Great stress has also been laid in the book on the importance of the organisation of a discount market under the aegis of a strong central institution. It has been pointed out that cash reserves need no longer be regarded

as inadequate, if banks are able to rediscount their holdings of bills freely. This view has received the support of the Commission. There is another point on which all the members of the Commission are agreed, *viz.*, that the issue of notes should be taken out of the hands of the Government. It has been pointed out in the first part of the present volume how Sir James Steuart recommended this measure as early as 1772. Lapse of time has not detracted from the strength of his contention. There are certain other reforms suggested in the second part, which have also been recommended by the Commission, *viz.*, the establishment of a one-reserve system, in fact as well as in name, the abolition of the stamp duty on cheques and the standardisation of indigenous bills of exchange.

There is only one point discussed in the second part of this volume which is somewhat at variance with the majority report when it states that "the mere fact of putting gold into circulation would not . . . . . . develop the banking and investment habit." In an abstract sense this is probably right. But in the peculiar conditions of India, until public confidence is created by a courageous currency reform even amounting to the establishment of a comparatively expensive gold currency, people will not be weaned from uneconomic habits of hoarding, nor initiated in the use of any form of credit currency, although the notes may bear a double guarantee, that of the Reserve Bank and of the Government of India. It is not excessive pessimism which makes the present writer cherish serious misgivings about the future of the proposed Gold Bullion Standard. Nor is he convinced by the reasons given by the Commission for rejecting the scheme prepared by the Finance Department of the Government of India for introducing a gold standard with gold currency.

Calcutta University, H. S.
September, 1926.

EARLY EUROPEAN BANKING IN INDIA

1770—1809

PART I

House of Jagat Seth.

Banking on European lines is of comparatively recent growth in India. Long before the Europeans came into this country there had been a highly developed indigenous system. No royal court was complete without a State Banker, who was often invested with the powers of a minister. The house of Jagat Seth was the hereditary banker to the Nawabs of Bengal. The founder of the house was a Marwari Rajput, who came from Jodhpur and settled in Patna about the year 1695. His eldest son Manik Chand became the banker to Diwan Murshid Quli and was entrusted with the remittance of the Imperial revenue to Delhi. In 1715, he was given the title of *Seth* or "banker." His nephew and adopted son, Fateh Chand was given the hereditary title of *Jagat Seth* or "banker of the world" by Emperor Farrukhsiyar[1] as a reward for services rendered before his accession to the throne.

1 *Selections from the Unpublished Records of Government* (1748—1767) by the Rev. J. Long (1869), Vol. I, p. 579.

Its rise

The height of prosperity of the house was attained at the time of Mahatap Chand and his brother, the two grandsons of Fateh Chand. "Their riches were so great that no such bankers were ever seen in Hindustan or Deccan; nor were there any bankers or merchants that could stand a comparison with them, all over India. It was even certain that all the bankers of their time in Bengal were either their factors or some of their family. Their wealth may be guessed by this only;—In the first invasion of the Marhattas and when Moorshedabad was not yet surrounded by walls, Mir Habib with a party of their best horse, having found means to fall upon that city before Aliverdi could come up, carried from Jagat Seth's house two crores[2] of rupees in Arcot coin only, and this prodigious sum did not affect the two brothers, more than if it had been two trusses of straw. They continued to give afterwards to the Government, as they had done before, bills of exchange called *dursunnies*[3] of one crore at a time."[4] It was Jagat Seth who was instrumental in the overthrow of Nawab Siraj-ud-Dowla and the setting up of Mir Jafar as Nawab. When he visited Calcutta in 1759,

[2] Three lacs of rupees according to Stewart.

[3] Or bills at sight.

[4] *Seir Mutaqherin*, Cambray's Edition, Vol. II, pp. 457—8.

the English entertained him at a cost of Rs. 12,000.

and fall.

When Mir Kasim succeeded Mir Jafar, the old friendship towards the English was replaced by bitter hostility. Jagat Seth, as the friend of the English, could not escape the wrath of the new Nawab. After his defeat at the hands of the English, he ordered Jagat Seth to be thrown into the Ganges from one of the bastions of the Monghyr fort and confiscated all his property.

Agency Houses of Calcutta.

With the fall of the great banking house and the rise of trade and commerce in Calcutta, European merchants began to experience great difficulty for lack of credit, specially as the indigenous bankers did not finance foreign trade, which was the main business of the European traders. In the course of time, the great Agency Houses of Calcutta added banking to their other business. It was quite natural for these "merchant Princes of India" to assume this new duty, for "they were Agents for the whole of the Civil and Military services, the Planters, and the Merchants scattered over the Upper Provinces" and employed the funds deposited with them to the best possible advantage.

With the growing importance of Calcutta,

the money market gradually shifted to Calcutta from Moorshedabad. The *Khalsa*[5] was removed to Calcutta in 1771.

Earliest European Bank.

The Great Famine of 1770 gave a new orientation to the trade and commerce of Bengal. As a result of all this, there was an imperative necessity for increasing banking facilities in Calcutta. Messrs. Alexander & Co., one of the leading Agency Houses of the time, started about this time the Bank of Hindostan, which was the earliest European Bank in India.

Cooke's error.

This Bank has been mentioned in the *Rise Progress and Present Condition of Banking in India*, "the first book of its kind," written by Charles Northcote Cooke, Deputy Secretary and Treasurer to the Bank of Bengal and published in Calcutta in 1863. All subsequent writers on Indian banking history have borrowed largely from this book, often without acknowledgment. Cooke has relied mostly on contemporary records, and his account of the different banks is as a rule accurate. In this case, however, he has committed the error of supposing that the operations of the Bank of Hindostan were "entirely distinct" from the trading business of Messrs. Alexander & Co. He has been led into this error by the fact that Mr. Barretto of another

5 *i.e.*, the Treasury.

Agency House, *viz.*, Messrs. Barretto & Co., "was a partner in the Bank for a few years." The truth however is that the Bank was eventually, if not initially, a department, the Counting House, so to say, of Messrs. Alexander & Co. This is quite clear from the fact that the bank successfully withstood three[6] severe runs on it, the first in 1791, the second in 1819 and the third in 1829, but could not survive the failure of Messrs. Alexander & Co., in 1832.[7]

The Bengal Bank.

The earliest bank unconnected with any of the Agency Houses which can be traced in contemporary records is the Bengal Bank. This Bank must not be confused with the chief Presidency Bank, the Bank of Bengal, which was opened for business under the name of the Bank of Calcutta on June 2, 1806;[8] was granted its first Charter on January 2, 1809,

6 Cooke mentions only *two* runs,—of 1819 and 1829. G. P. Symes Scutt in his privately printed and circulated *History of the Bank of Bengal* repeats the account given by Cooke. This book is extremely rare. There is one copy in the library of the Imperial Bank of India, Calcutta, to which the writer was given access through the courtesy of Mr. D. S. McLure, the Secretary and Treasurer

7 Similarly, the Calcutta Bank started by Messrs. Palmer & Co. failed in 1829 on the failure of that Agency House. There were a number of other mushroom banks established by other Agency Houses, which shared the same fate.

8 Both Cooke and Symes Scutt give May 1, 1806 as the date of commencement of business. But the fact is that the Bank began business with the public on June 2, 1806, although the first call of the share capital was received on May 1, 1806.

when it received its familiar name; and was finally absorbed into the Imperial Bank of India on January 27, 1921, along with the other two Presidency Banks, the Bank of Bombay and the Bank of Madras. Cooke mentions the Bengal Bank in his book, but the account given by him is meagre and inaccurate. There is no systematic description of it anywhere else.

The exact date of the establishment of the Bengal Bank is unknown. It was in existence, however, much earlier than is believed by Cooke. For in the *Calcutta Gazette* of May 24, 1784, there appeared the following advertisement:

"A subscription is opened at the Bengal Bank for the relief of the Non-Commissioned and private Europeans, of the King's and Company's [*i.e.*, the English East India Company's] Troops in the Carnatic, who were unfortunately captured during the war with the Nabob Tippoo Sultan, and have lately been released from their confinement.........."

Banking business in 1785.

More than a year later, there is another official announcement in the *Calcutta Gazette* about the business of the Bengal Bank in its issue of September 8, 1785. Two officials, Mr. Edward Hay, Secretary of the Secret Department and Mr. Jacob Rider, Deputy Import Warehouse Keeper became, about this time, the proprietors of the Bank

and appointed Mr. James Hennes their duly constituted agent for carrying on the business on their behalf. The issue of notes was the chief banking function in those days in India as elsewhere, but they tried to introduce cheques, as will be apparent from the following advertisement:—

(a) Cheques.

"It appears not to be so generally understood as it should be, out of the environs of Calcutta, that money is received into the Bengal Bank and issued from it on demand to the order of those who deposit it, without any charge whatever to persons paying or receiving the same, in the same manner as at all the Banking Houses in London.

"Bank cheques will be granted to all persons applying for them, who deposit their cash in the Bank. These require only to be filled up in favor of the person to whom the cash is intended to be paid, and were this advantage generally attended to, many abuses would be prevented in the receipt of money which are now frequently complained of." Good old days, when an introduction was unnecessary for opening a banking account! Fortunately, the banker of 1785 was not worried at all by the decision of *Ladbroke & Co., v. Todd* of 1914.[10] He had another advan-

[9] *Calcutta Gazette*, September 8, 1785.

[10] The facts of the case are as follows. A thief opened an account with a stolen cheque professing himself to be the payee.

tage over his modern successors,—he had shorter banking hours, half past nine in the morning to half past one in the afternoon, or every day a Saturday![1]

The business was however on approved lines and is described in the following advertisement:—[2]

(b) Notes.

"The Notes of this Bank will be signed by one of the Partners.[3]

(c) Bank Post Bills.

"The Bank will issue their post bills for the accommodation of gentlemen living at, or going to other settlements or subordinates.[4]

"As the business of the Bank will be continued upon the same plan as the Banking houses in England, the Bank will not engage

No references were obtained bv the bank nor was he introduced to it. The cheque was specially cleared at the request of the thief, who drew out the proceeds on the next day. The fraud was soon discovered. The drawers issued a fresh cheque to the real payee and sued the bank for damages. It was held that the banker was guilty of negligence in not taking reasonable precaution to safeguard the interests of the true owner of the cheque and could not therefore claim the statutory protection afforded to collecting bankers.

A similar difficulty may arise if an account is opened with an undischarged bankrupt.

1 The working hours in Public Offices were then from 9 o'clock to 1 in the morning, and from 7 o'clock till 9 in the evening. [*Calcutta Gazette*, June 30, 1785]. There were neither drinks cooled with ice nor electric fans in those days and one tried to avoid work during a tropical midday as far as possible.

2 *Calcutta Gazette*, March 16, 1786.

3 For the form of the note, see *post*.

4 For the form of the Post Bill, see *post*.

in any commercial concerns excepting the purchase of bullion."

The Bank had some sort of Government recognition, for in the *Calcutta Gazette* of May 16, 1786, the Bengal Bank was authorised "to register and liquidate the bills granted for the moiety of Military Arrears due to the subalterns and privates of the Honorable [*sic*] Companies' [*sic*] armies at the Presidencies of Fort St. George [*i.e.*, Madras] and Bombay," payable in Bengal.

Government business.

In June, 1786 was opened for business the General Bank of India,[5] which proved a formidable rival to the Bengal Bank. This I believe was the first Joint Stock Bank in India with limited liability, although this fact has not been mentioned by any previous writer including Cooke. This is all the more surprising because it was not till 1855 that the principle of limited liability was made applicable in England to trading companies. Even then, banks were excluded from this privilege; for, it was felt that owing to the peculiar nature of their business the bankers were debtors to the public for such large amounts that it

Earliest Joint Stock Bank with Limited Liability.

[5] The account given by Cooke is altogether inaccurate. I cannot say how such a careful writer could have been led into so many serious errors. Symes Scutt and other writers have repeated this erroneous account.

would be unsafe to limit the liability of the shareholders. After the crisis of 1857 which involved many banks in failure, the wealthier classes declined to incur the risk of holding shares and in order to attract them the principle of limited liability was extended to bank shares in England in 1858 but the liability for notes issued remained unlimited as before.

The plan.

The "plan" of the General Bank was agreed upon at a General Meeting held in Calcutta on March 17, 1786 and published in the *Calcutta Gazette* of June 8, 1786. There were 23 Articles in all, which were slightly altered and incorporated into the Articles of Agreement of the Shareholders dated May 1, 1786. A printed copy of the Articles is carefully preserved in the Imperial Records Office in Calcutta from which the following extracts are made:—

"......Whereas it has been sometime in contemplation by several of the persons whose Names and Seals are hereunto subscribed and set, to unite together in the establishment of a Bank throughout India; under the name of the General Bank of India, for the purpose of general convenience, and in some measure to alleviate the distress caused by the general scarcity of money,[6] which India has long

[6] The Bank was successful in alleviating this extreme stringency.

laboured under, and which has operated to the great disadvantage of the public and of individuals, and in the hope of lowering the heavy discount[7] which the Treasury Orders, and other paper issued by and on account of the English East India Company, have long borne, to the great loss of individuals, and operating almost to an annihilation of all trade and commerce throughout British India. And Whereas several public meetings have been held in the City of Calcutta, in order to settle some general plan on which such Bank should be formed,......and which plan consisting of the twenty-three articles hereinafter set forth was agreed to be adopted......that is to say :—

The 23 articles.

"Art. 1. The Bank to consist of 100 subscribers, of 20,000 Sicca[8] Rupees each, or 400 quarter shares, of 5,000 Sicca Rupees each, making a capital of 2,000,000 Sicca Rupees."

1. Capital.

This provision clearly indicates that this joint stock conern was merely one step in advance of private partnerships and much behind the huge public companies of the present times. The number of shareholders could in no case exceed 400 and was generally fewer than that, for the holders of quarter shares

7 About 25%, see *post*.

8 The word *'Sicca'* is derived from the Arabic word *'Sikka'* meaning a die. Sicca Rupee means newly-coined silver rupee of the Mughal Emperors struck in Bengal.

were not entitled to vote, except under the conditions laid down in Article 3, *post.* In England, the Act of 1708 forbade any bank other than the Bank of England "to borrow, owe, or take up sum or sums of money on their bills or notes, payable at demand, or at a less time than six months from the borrowing thereof," if the number of shareholders exceeded *six.* It was not till 1826 that this restriction was partially removed, consequent on the severe crisis of 1825.

2. Subscription open to all.

"Art. 2. The subscription to be open to all, without distinction of country or religion."

But there was some restriction with regard to Directors as provided for in Article 5, *post.*

3. Quarter Shares: Original Subscribers.

"Art. 3. For the convenience of every subscriber, each share shall be divided into portions of 5,000 Rupees; but the owners of these portions shall not be entitled to a vote, unless they hold four of them: yet original subscribers shall preserve their vote as long as they retain two."

This preferential treatment of original subscribers is noticeable; this clearly shows that the idea of merging the individuality of the members of a joint-stock company, with its shares freely transferable and carrying identical rights and privileges irrespective of the holders, was not fully developed at the time

of the establishment of the General Bank of India.

"Art. 4. Each subscription shall be payable one-half in cash, one-half in Company's Paper; the moiety in cash to be paid on the 1st May next, and the other moiety deposited on the same day in paper, at the discount of the day, to be redeemed on the 1st August next, otherwise to be sold, and the deficiency to be made good by the subscriber."

4. Subscription: half in cash and half in paper.

Companies of the present time which find it difficult to realise their "calls," even after threatening the defaulting shareholders with the forfeiture of their shares may take a leaf out of the book of the General Bank with great profit. Not only this, the Bank was able to commence business with a large portfolio of discounted bills from the very first day.[9]

"Art. 5. Nine Directors shall be chosen by a majority of the General Meeting, being British-born subjects; and three of these being the last upon the list, to go out annually, and three others to be in like manner elected in their room.

5. Election of Directors.

"The Directors shall chose [*sic*] from among themselves a Chairman and a Deputy Chairman: the whole Board shall then nomi-

9 This is reflected in the first half-year's profit, which was nearly double the second half-year's. See *post.*

nate and fix the establishment. In case of accidental vacancy, a general meeting to be called up to fill such vacancy."

It is interesting to note that there was a similar provision in the first Charter of the Bank of England dated July 27, 1694, *viz,*

"That the management and government of the corporation be committed to the governor, deputy-governor and twentyfour directors, who shall be elected . . . from among the *members of the company duly qualified. . . .*

"They must be natural born subjects of England, or naturalized subjects; . . .

"That thirteen or more of the said governors or directors (of which the governor or deputy-governor shall be always one), shall constitute a court of directors for the management of the affairs of the company, and for the appointment of all agents and servants which may be necessary, paying them such salaries as they may consider reasonable."

6. Swearing in.

"Art. 6. The Directors, Cashier, Secretary and Accomptant shall be sworn to a faithful discharge of their trust before any of the Judges."*

The 'plan' published in the *Calcutta Gazette* of June 8, 1786 provides for the swearing in of the Directors alone. In any case, no Judge of modern times would agree to such swearing-in to office.

"Art. 7. A meeting of the Directors, not

less than three, of which the Chairman or Deputy Chairman must be one, shall be held every Tuesday and Friday throughout the year, for the inspection and transaction of the accounts and business of the Bank. In all questions a majority of Directors present to determine; and in case of equality, the Chair or Deputy to have a casting vote."

7. Directors' Meeting.

"Art. 8. The subscribers shall be liable *to no risk or claim beyond the amount of their* subscription, as declared in the opinion of Counsel obtained and published upon this head."

8. Limited Liability.

This question of limited liability of the shareholders of a bank was not free from legal doubt. In the first Charter of the Bank of Bengal, dated January 2, 1809 [47 Geo. III. c. 68], we find the following:—" . . . doubts have been entertained, whether the powers of those Governments are competent to the Establishment of such Banks within the local limits of the Jurisdiction of the several Courts of Justice in India which have been established by his Majesty's Charters and that it is expedient that such doubts should be removed . . ."

"Art. 9. Every Director must be possessed of one full share of 20,000 Sicca Rupees each."

9. Qualification of Directors.

Similarly the first Charter of the Bank of England provides that the governor, deputy-

governor and the twentyfour directors "shall have in their own name and for their own use, severally, viz, the governor at least £4,000, the deputy-governor £3,000, and each director £2,000, of the capital stock of the said corporation."

"Art. 10. The Society to subsist for five years from the 1st of May, 1786, at the expiration of which time, the subscribers at the Presidency of Calcutta shall consult what may be most advisable to be done ; and the majority to determine whether they think proper to continue or dissolve the Society."

10. Agreement for five years.

The concluding portion of this article differs from that published in the *Calcutta Gazette*, which provided that " . . . at the expiration of which time it shall be dissolved, in case an Act of Parliament shall not in the meantime be obtained for its establishment." The first Charter of the Bank of England was issued for ten years only.

"Art. 11. General Meetings to be held quarterly, to receive a report from the Directors upon the situation of the Bank.[10]

11. Quarterly and Half yearly Meetings.

"Half-yearly meetings to determine a dividend upon a balance to be then laid before

10 Similarly according to the first Charter of the Bank of England "Four general courts to be held every year, in the months of September, December, April and July "

them; no dividends to be made of a larger amount than two-thirds of the nett profits."

At a General Meeting held on December 1, 1787, it was however resolved:—"That the words 'no dividend to be made of a larger amount than two-thirds of the nett profit' be left out of the 11th Article of the Agreement." Thus the shareholders sacrified the ultimate security of their property for immediate gain. Even now, the shareholders of the biggest banks, who may be presumed to know better, complain year after year at general meetings that too large amounts have been provided for reserves and far too little for dividend.

12. Notes and Reserves.

"Art. 12. The Bank may issue their own notes; but one-third at least of the capital, including its extension by the issue of notes, shall always remain in specie in the Bank."

Thus reserve was kept for capital but not for demand liabilities except for notes in circulation. One reason of course was that deposit banking was then in its infancy and the notes issued represented the chief portion of demand liabilities. But the real reason was that the shareholders wanted to protect their own interests and not those of their constituents. In the General Meeting held on December 1, 1787, the words "including its extension by the issue of notes" were deleted by the shareholders from the 12th Article.

13. Denomination of Notes.

"Art. 13. The notes payable to the bearer to be extended to sums from 50 to 5,000 Sicca Rupees. Bank post bills to be issued as called for."

As stated in the *Calcutta Gazette* of September 8, 1785, the Bengal Bank notes were for five hundred rupees, fifty rupees and one gold mohur.

14. Holidays and Hours of Business.

"Art. 14. The Bank to be open every day in the week, Sundays and great established festivals excepted; the hours of public business from nine in the morning till two P.M."

List of bank holidays in 1789.

The following is a list of holidays in the General Bank of India in 1789, as announced in the *Calcutta Gazette* from time to time:—

Date of publication of Notice in Calcutta Gazette.	Festivals (The original spelling is given although incorrect).	Dates when the Bank was closed for business.
January 29	Bussent Punchumee	January 31
February 19	Sheoratter	February 23, 24
March 5	Hooley	March 9, 10, 11, 12 and 13
April 2	Sirree Ramnoimee	April 4
June 25	Rhaat Jattra	June 25
July 2	Poonur Jattra	July 3
August 13	Janum Ustmee and Nundo Ochoo	August 14 and 15
September 24	Durga Pujah	September 24, 25, 26 and 28
October 29	Rass Jatra	November 2
November 12	Kartick Pooja	November 14
December 24	X'mas	December 25 and 26

15. Discounting.

"Art. 15. The Bank will discount all Company's Paper; also such private bills as are approved. Private Bills at the rate of one per cent. per mensem.[1]

"No private bills to be discounted but on Tuesdays and Fridays. Whenever the funds in hand shall not be equal to the discount of all the paper that is offered, a preference to be given to Subscribers; and after them to those who keep cash at the Bank."

It is clear that the Directors themselves scrutinised the private bills offered for discount. At the present time, the Directors assign "limits" to different parties, that is to say, fix up the maximum amounts up to which they can borrow from the Bank. The scrutiny of individual bills is left to the Manager or his Deputy.

16. Current Accounts etc.

"Art. 16. The Bank will open an account with any person or persons who shall chose [*sic*] to lodge cash with them, and will repay it to their order at sight in any proportions they may call for it, without any charge, in the usual manner of Banking Houses in London. They will also receive deposits to be restored on demand, and they

[1] By the Regulation dated March 28, 1780, 24 per cent. per annum was declared to be the legal rate of interest, when the principal did not exceed Rs. 100, and 12 per cent. when the principal exceeded Rs. 100.

will issue their notes for any sums that may be paid in, agreeable to the proportions expressed in Article 13."

The circumlocution with which Current Accounts are explained above shows at once that in spite of the introduction of cheques by the Bengal Bank in 1785, people did not know much about Current Accounts in those days.

17. Loans.

"Art. 17. The Bank will lend at their discretion, upon pledges and mortgages approved, but never for a term exceeding four months; all charges of conveyancing, &c., at the expence [*sic*] of the borrower."

The Imperial Bank of India under the Act [Act XLVIII of 1920] are not permitted to make any loan or advance (a) for a longer period than six months, (b) upon the security of stock or shares of the Bank (c) upon mortgage or in any other manner upon the security of any immoveable property or the documents of title relating thereto save in the case of estates under Courts of Wards.

18. Overdrafts and Current Accounts.

"Art. 18. No person shall be allowed to overdraw his account.

"A book and checks[2] will be delivered to

[2] The earliest bankers in England were goldsmiths who added to their usual business of money-changing the acceptance of deposit of spare cash lodged with them by their customers. They gave in exchange receipts or "goldsmith's notes." "The next phase arose when arrangements were made by which, instead of taking notes, the depositor could issue an order on the goldsmith

every person who opens an account with the Bank; this being the same as opening transfer books.

19. Balancing of Cash.

"Art. 19. A balance of the cash to be struck every night and the Office not to break up until that is done.

20. Alteration of Agreement.

"Art. 20. That no alteration shall be made in the above Articles, but by a general meeting to be called for that purpose, and by a majority of two-thirds at least of the subscribers present. A general meeting may at any time be called at the requisition of nine subscribers in writing, and signed by them.

21. Transfer of Shares.

"Art. 21. No contract or agreement either by word or in writing for buying or selling of shares in this Bank, shall be valid, nor the holder entitled to vote, unless it is registered in the books of the Bank.

instructing him to pay the sum stated in the order. These orders were drawn payable to bearer, and bore serial numbers. . . As with notes, the serial numbers were registered for the purpose of verification. Hence the books of forms were called *check* books." *Elementary Banking* by H. P. Sheldon (1923), p. 2. According to Gilbart, however, "the word is derived from the French *echecs*, chess. The chequers placed at the doors of public houses are intended to represent chess boards, and originally denoted that the game of chess was played in those houses. Similar tables were employed in reckoning money, and hence came the expression to *check* an account." Cheques, or to give them their original spelling, checks, came into use in England about 1780.

"Art. 22. The regulations for the detail of the Bank, particularly the forms of their notes, and Bank post bills, will be published, as soon as the Bank is established.

22. Forms of Bank Instruments etc.

"Art. 23. The original deed, which shall be drawn up and signed by the subscribers, including the above plan, shall be deposited among the records of the Supreme Court of Judicature." . . .

23. Deed to be deposited in Court.

This was followed by "other regulations, provisos, conditions, and restrictions," the most important of which are the following:—

Other Provisos.

" . . . and these presents are upon this express condition, that nothing in these presents, or in the said plan contained, shall extend or be construed or deemed to make the several persons subscribing and executing these presents, or their estate or estates, goods, chattels, or effects, liable to pay any loss or losses, debt or debts that may happen or fall upon, or be owing by the said Society, further than or beyond the respective share or shares of each subscriber to the said joint stock or capital of the said Society. . .

Reiteration of Limited Liability.

"And it is expressly further covenanted, declared and agreed upon, by and between the several parties executing these presents, in order

Notice to public.

that the publick may be fully informed of the terms on which the said Society deal with them, in all the notes issued by the said Society, it shall be expressed, that the sum to be payable by such note shall be paid out of the joint stock of the said Society, and such other publick notifications of the said terms of the said Society, shall be from time to time published in such manner as the Directors shall think proper."

This purpose is now served by adding the word "limited" to the names of companies.

Share Transfers.

"And further it shall and may be lawful to and for each of the several said persons, parties to these presents, his, her or their assigns, . . . to sell, assign, and transfer to any person or persons whomsoever . . . his, her or their share or shares in the said joint stock or capital of the said General Bank by any writing or writings under the hand and seal of the person or persons selling, assigning, and transferring the same to be attested by two or more credible witnesses, and entered into a book or books to be kept for that purpose at the said General Bank, within ten days after the sale, assignment and transfer of such share or shares shall have been made; and the assignee or assignees of such share or shares to be assigned or transferred, and sold, shall either by himself or themselves or his, or their Attorney or Agent, lawfully authorised, sign,

seal and execute this present Deed, at the bottom thereof, or by indorsement on the back hereof. . . .

"Cashier and Secretary shall respectively be subscribers to the said joint stock, or capital of the said Bank, to the amount of twenty-thousand sicca rupees, at the time of election and nomination. . . .

Cashier and Secretary to hold shares.

" . . . the proper and necessary books of receipts, payments, accounts of money, and other transactions of the Bank......shall be always open to the inspection of the Directors for the time being, and to be laid before the subscribers at large, together with a full, true and complete statement of the affairs, at every General Meeting of the said Subscribers, to be holden every quarter of the year. . . ."

The Deed of Agreement from which so many extracts have been made is believed to be the earliest document in India which may be compared with the modern Memorandum and Articles of Association. Details about the internal management such as transfer of shares, meeting of Directors, etc., are given. But such important matters as the limit of note-issue have been omitted. The details given are also quaint. No one would now think of getting the signature of a transferee of shares on the Memorandum and Articles of Association as stated above.

Peculiar provisions in the Deed.

Such an elaborate document was clearly unnecessary, for, as stated by Adam Smith, "banking trade" is one of the few which can be brought to such uniformity of method as to be safely conducted by a joint stock company. "*Wealth of Nations*" was published in 1776, *i.e.*, ten years before the establishment of the General Bank. Prof. J. C. Sinha in his article on *Economic Theorists among the Servants of John Company* published in the *Economic Journal* for March, 1925 has shown that Adam Smith was quoted in contemporaneous Indian official papers. The elaboration in the Deed of Agreement was called for, not so much by the joint stock nature of the enterprise in "banking trade," as by the principle of limited liability. According to ancient Hindu law, even death does not absolve liability for a debt. It is the pious duty of a Hindu son to pay off the debt incurred by his father, although he may not have inherited any property. The principle of limited liability was therefore entirely foreign to the genius of the people.

Reason for such elaboration.

The General Bank met with considerable success from the very beginning. The Bengal Bank, although the older institution, was relegated to an inferior position. And this, in spite of its

Success of General Bank excites jealousy.

having official proprietors, who *naturally* became jealous of the General Bank and probably helped to spread stories against it. This is referred to in the following communication published in the *Calcutta Gazette* on April 27, 1786 :—

"I congratulate the Subscribers to the General Bank on having effected its establishment by their vigorous efforts and steady perseverance. The little malice of faction endeavoured to rear its head, but was soon crushed and overwhelmed with mortification and disappointment. . . . It is an institution which has been long and loudly called for in this country, where a number of individuals, from whose exertions and industry the community might have derived the greatest benefit, have been prevented from following the bent of their genius and inclination by the fetters imposed on credit. . . .

"It is also a great recommendation of the institution of the General Bank that it will render the operations of business throughout the different settlements of India easy and expeditious. New sources of trade and commerce may be explored, and the acquisition of the fame and wealth to the Indian Company increased in proportion. Perhaps even the Government of this country itself may in some emergencies, feel the benefit of this institution." . . .

To secure Government patronage, the

Bengal Bank offered to assist the Government of Bengal for remittances to Bombay by the Bengal Bank Post Bill in July, 1786. The proposal is still to be found in the Imperial Record Office at Calcutta[3] and is reproduced below with its quaint phraseology and spelling :—

Bengal Bank makes a bid for Government patronage,

"The proposition we have to make is that at any time you should think proper so to direct,[4] we might furnish you with a certain sum in our Bengal Bank Post Bills of the tenor of the one we have the honour to enclose, which being made payable to your Governor and Council at Bombay, or their order, can be of no value, until they have endorsed it, but which with their endorsation might become negotiable and an eligible mode of remittance to the Merchants there and at Surat, as they would have the engagement of a private House for the punctual payment of the Drafts and the

by proposing to put Governor and Council at Bombay in funds,

[3] O. C. 22, July 4, 1786 and P. P. 1693—8, 1786. There are two sets of State records in the Imperial Record Office, (1) Original Consultation or Minutes of the Meeting held by the Governor-General in Council and (2) Copy of Proceedings of the Public Department of the Government. Thus O. C. 22, July 4, 1786 means the original minutes with regard to the 22nd item considered at the meeting of the Governor-General in Council on July 4, 1786. P. P. 1693—8, 1786 means the folios 1693—8 of the Proceedings Book of the Public Department for the year 1786. Both record the same thing.

[4] The punctuation marks are mine. Words in vernacular have been italicised in this as well as the following extracts.

Company's Estate would be pledged by the Endorsers for the final security of their property, we propose the Bills to be only in Current[5] or in Sicca Rupees, because the Exchange varies and you may then determine whether you will limit the Governor and Council at Bombay or you will leave it to their Judgment and Discretion to make the best bargain they will be able.[6] If these drafts should by the support and assistance of the Government of Bombay be brought into Circulation, and be readily accepted by the merchants wanting Cash in Bengal, you may find a further convenience in the plan: because we mean not to ask any advance of Cash when we furnish them. We only desire to be put in Cash for the amount of as many of them as the Governor and Council of Bombay shall advise you they have received value for, and that only as soon as we shall represent to you their having been accepted by us and becoming due. By being furnished

by means of Bengal Bank Post Bills indorsed and put into circulation.

5 Current Rupees were not actual coins but mere units of the money of account. The standard money in Bengal was Sicca Rupee. 100 Sicca Rupees were taken as equivalent to 116 Current Rupees.

6 The idea was to have the Bank Post Bills negotiated by the Bombay *shroffs* or indigenous bill brokers at the best possible exchange who were *either* to forward the instruments to their Calcutta Offices for presentation to the Bengal Bank and payment by them, *or* to sell them to local merchants, who might require funds in Calcutta to pay for their Bengal purchases.

with this kind of credit, the Government at Bombay will be able to take up money as far as you intend to enable them to do, and as often and only as there shall be money to this side of India and you will at the same time gain three months at least, and most probably upwards of four in the time of payment[7] for you will in all such cases have to pay in Arrears instead of Advance.

"We must repeat that we only offer this as an experiment, but with your commendation there seems great probability of success. We shall be happy to wait the event and then only such a commission for our Intervention as you shall judge in reason due to us upon such a Transaction.

We remain with Respect,
Honoured Sir & Gentlemen,
Your most obedient, Humble Servants,

J. Rider.
E. Hay.
Thos. Henchman.
E. Whitewell.
B. Mee."

Bengal Bank,
Calcutta,
13th June, 1786.

[7] It was in 1849 that the first railway line was opened in India. In 1786 it took a long time for the negotiated drafts to reach Calcutta from Bombay for presentation for acceptance by the Bengal Bank, the payment being made a month later, as the drafts were drawn at 30 days' sight. This delay was inevitable, although the *shroffs* or bill brokers had a very efficient system of despatching mails in those days and even a century later. Cooke wrote in 1863, "Very generally the Indian bankers distrust the conveyance by the European letter post, and have *estaffettes*, or special couriers of their own, which seldom fail in conveying information long in advance of Government mails."

Form of Bengal Bank Post Bill.

The form of the Bank Post Bill enclosed with this application is given below, for it is believed to be the earliest Indian Bank Post Bill now extant :—

No. **Calcutta.** **BENGAL BANK POST BILL.**

To be filled up in Bengal or Persian with the value of the Bill.

At thirty days sight We Promise to pay this our First Bill of Exchange to the Hon'ble the Governor and Council of Bombay or order Current Rupees.........value received of the Hon'ble John Macpherson, Esq., Governor-General and Council of Bengal.

For the Bengal Bank,
B. Mee.

Our Second and Third of same tenor & date being unpaid.

In some respects this represents a Bank Post Bill of the present time issued by the Bank of England. Both are essentially promissory notes but, peculiarly enough, both require

Peculiarities of Indian Bank Post Bills and reasons thereof.

acceptance before payment is made. As regards the form, the chief difference is that the Indian Bank Post Bill was not drawn "sola" but in "sets of three." Bank Post Bills were first used in England on December 14, 1738 as a safe and convenient method of remittance in those days of highway robbery.[8] If notes were sent, they could be cashed by robbers before their payment could be stopped at the Bank concerned. If however Seven Day Sight Bills were sent, intimation about the robbery could reach the paying bank in time and encashment prevented.

In India, *muddati* or usance *hundis* were used for the purpose of remittance in the same way. Bankers as a rule are conservative people, specially the indigenous bankers of this country. It can therefore be safely presumed that the *muddati hundis* of that time did not differ materially from the one reproduced below, although it bears a subsequent date:—[9]

Corresponding indigenous instrument.

[8] Gilbart's *Banking*, edited by E. Sykes: Vol. I, pp. 41-2.

[9] I am indebted for this to Mr. S. N. Lala, Lecturer, Calcutta University.

Shri Parameswarji Siddha Shri Mumbai Bandar shubhasthanek bhái Shri Moti Lál Ji Muralidhar Yogya Shri Kalkattese likhi Sankar Lál Náráyan Dás ka pranam banchaná. Aparanch hundi ek rupayá 1,000 akhré rupayá ek házár ki nimê rupaya pánoh souká duná purá inhá rakhé bhai Saubhag Mal Ji Ráo Mal pás miti Asoj Badi 1 ekam thi din 21 ikwis pichhé Shájog[10] *rupayá hundi chalanká dená Sambat 1982 miti Asoj Badi 1 ekam.*

English translation.

A literal English translation is given below :—

In the name of God.

[Let] there be success to brother Moti Lál Ji Muralidhar of the auspicious place, the port of Bombay and [let] there be conveyed to him the greetings of Sankar Lál Náráyan Dás writing from Calcutta. And I have drawn one hundi for Rs. 1,000, in words Rupees one thousand, half of which is Rupees five hundred, (its double), in favour of Saubhag Mál Ji Ráo Mul, payable 21 twenty-one days after the date *Aswin* Badi 1, first day, through a *Shá*, which please honour by making payment. Dated *Sambat* (Year of the Hindu Calendar) 1982 *Aswin Badi* 1, the first day.

10 The difference between a hundi marked "*Shájog*" and an ordinary hundi is that the former is paid through a *Shá* or a respectable person and the latter through any person. They can therefore be compared to a "crossed" and an "open" cheque in this respect. But this difference is gradually wearing out.

As indicated in the form given above the Bank Post Bill although an inland bill, was not drawn *sola* but in sets of three. Similarly the above *muddati hundi* is not the only instrument drawn for the remittance in question. This is merely the original document or *khoká*. If this is lost in transit, a duplicate, a triplicate and even a fourth "copy" may be issued in succession, which are called, *Pait*, *Parpait and Mejur Námá* (or *Munjur Námá*). Some writers have referred to *Pait* and *Parpait* as the second and the third of exchange but, strictly speaking, this is not correct, for all the three sets of a bill of exchange are drawn at one and the same time, not one after another. The difference of procedure in the case of indigenous instruments will be apparent from the following *Pait*[1] :—

The Pait.

[ORIGINAL]

Siddha Shri Bombai bandar subhasthanek Sháji Shri Ganesh Dás Ji Hirá Lál Yogya Sri Udaipur se likhi Chandan Malká Juhar banchávasi. Aparanch hundi ek rupayá 1,000 akharé rupaya ek házár ki nimé rupayá panch souka duna purá ithhe rákhhá bhái Mirjamal Ji pás marfat bhái Hirá Lál Ji Manik Lál miti Asoj Sudi 1 ekam pugá turat Shájog hundi chálánká lekhi hoti so hundi

1 I am indebted for this also to Mr. S. N. Lala, Lecturer, Calcutta University.

rákhyawálo dhani kho gái kahawá chhé so hundi kho gai hoá to ápno rojnámo khāto rokhar nakal choukas dekhkar duná paithné sikárdás desi kádás hundi uke sikér di hoe to ihá paith rad chhé bánch kar fer desi sanad nagdo rájre upar kini hai jinimese sanad ek ká dám haina rajne bhardesma Sambat 1977 Asoj Sudi 15 punam likhi Pratap Malko juhar banchávasi.

[Translation.]

[Let] there be success to Sháji Ganesh Dás Ji Hirá Lál of the auspicious place, the port of Bombay, and [let] there be conveyed to him the greetings of Chandan Mal, writing from Udaipur and [I] drew on you a hundi for Rs. 1,000, in words Rupees one thousand, half of which is Rupees five hundred, (its double) in favour of Mirjamal Ji through Hirá Lál Ji Manik Lál dated *Aswin Sudi* first which was payable on presentation through a *Shá.* The party in whose favour the hundi was drawn reports that the hundi has been lost. If the hundi has been lost, please pay this *Pait* after carefully referring to your Cash Book, Day Book, Journal and Ledger. If you have already paid the hundi, this *Pait* is null and void and is to be returned after perusal. Two copies of the same hundi have been drawn on you. We shall pay only one of the two. *Sambat* 1977 *Aswin Sudi* 15 full moon. With greetings of Pratap Mal.

It is therefore apparent that although the Pait and the *Parpait* served the same purpose as the second and the third of exchange of a Post Bill, they were altogether different in form. The *Pait* quoted above is for a *dursani* or on demand *hundi* but it does not materially differ in the case of a *muddati* or usance *hundi.* Another noticeable feature is the triple precaution taken aga'nst fraudulent raising of the amount of the original *hundi* and the successive documents,—firstly, by stating the amount in figures; secondly, in words; and thirdly by stating the half of it. The first two precautions are observed in corresponding English instruments. But these two have proved insufficient in case of cheques which are now marked by a special device setting a limit to the amount, *e.g.*, by stating "Not over one thousand rupees."

Difference from the second of exchange of a Post Bill.

It was not however the novel form of the Bengal Bank Post Bill nor the elaborate procedure suggested that rendered the Bank's proposal futile. For sometime past, the Governor General had been experiencing great difficulty in remitting funds to Bombay. He therefore provisionally approved the scheme outlined by the Bank and sent it to the Bombay Governor

Bengal Bank Post Bills unacceptable to *Shroffs*.

for his opinion.[2] The *Shroffs* and the merchants of the Presidency town of Bombay carried on business at that time as agents of their principals at Surat.[3] The proposal of the Bank was therefore forwarded to the Chief and Council at Surat for eliciting the opinion of the local merchants and *Shroffs*. The Secretary of the Council forwarded the following report dated November 4, 1786 to the Bombay Governor:—"The Chief in obedience to your orders summoned the principal Merchants and *Shroffs*, and very fully explained to them the meaning and intention of the Proposal made to the Hon'ble the Governor General and Council, by the Managers of the Bengal Bank with which they expressed utmost satisfaction but at the same time declared that they would not advance any more money on the Hon'ble Company's account until they receive advice from their agents at Calcutta that the Bills already granted them by us were discharged in full."[4] Thus in those days, as now, credit could not be manufactured merely by manufacturing credit instruments. It is improper therefore to charge the indigenous *Shroffs* with conservatism because they refused to negotiate Bengal Bank Post Bills and increase the commitments of the impecunious Government any further.

2 O. C. 23, July 4, 1786.
3 P. P. 820 *et seq.*, February, 1787.
4 P. P. 820 *et seq.*, February, 1787.

Not to be outdone by the Bengal Bank, the General Bank of India also made a bid for Government patronage by making the following proposals in its letter dated December 23, 1786[5] :—

General Bank offer

"Prop. 1. That the General Bank from the 1 of January, 1787 be made the Channel for paying off the Certificate debt in the same manner that the Bengal Bank was lately made the Channel for paying off the drafts for Madras Military Arrears.

to discharge Certificates weekly and

"The Government paying Weekly into the General Bank their surplus receipts, now estimated and made appropriable to the discharge of certificates provided that the Company be put to no expence [*sic*] for the Management of the Business, and the Bank engaging to render weekly accounts of the payments made accompanied by the vouchers for the sums stated to have been discharged by them.

"Prop. 2. That the General Bank engage to lend or advance to Government Twenty Lacs of Current Rupees as follows :—

to advance 20 lacs against Certificates.

"Two lacs of Current Rupees every week .... The Government to grant their promissory note at 8 per cent. for each two

[5] P. P. 124—30, January, 1787.

lacs payable in three months, with the collateral security of a Certificate. . . .

Bank desires a credit of ten lacs upon the Treasury

"Prop. 3. That the Government allow the General Bank a credit of ten Lacs of Sicca Rupees upon the General Treasury. . . . . .

and recognition of its notes as legal tender.

"Prop. 4. That the notes of the General Bank be declared receivable at all the offices of Government at the Presidency provided that the General Bank be restricted from issuing any amount of notes beyond the extent prescribed by the 12th article of the Bank Agreement.

It agrees to Government inspection.

"Prop. 5. That the Accountant General or any officer appointed by Government shall have access whenever desired to the account books of the General Bank, such officer being bound by oath to Secrecy in every respect excepting information to Government."[6]

[6] Imperial Bank of India Act (Act XLVIII of 1920) similarly provides for Government superintendence and audit apart from general supervision by Governors appointed by the Government :—

"54 (3) The Governor General in Council shall be entitled to require of the Central Board any information touching the affairs of the Bank and the production of any document of the Bank.......

59 ....the Governor General in Council may appoint such auditors as he thinks fit to examine and report upon the accounts of the Bank."

These proposals were accepted by the Government with effect from January 15, 1787. At the instance of Cornwallis a sixth clause was added :—[7]

New clause re termination of the agreement.

"In the event of disappointment from this connexion not proving of mutual convenience and advantage it is declared and must be understood that it shall be in the Option of either Party to withdraw from the Connexion upon giving Eight days notice to the other."

Reason for it.

From the very first, the Court of Directors in London were against arrangements of this nature between the Government and the banks. The actual prohibitory order was however received only after the arrangements with the General Bank had been fixed up. The position is described in the following two paragraphs of the letter from Cornwallis to the Court of Directors dated September 7, 1787 :—

"Paragraph 10. Our letter of the 10th January last and the papers accompanying will have long since informed you of the connection we have entered into with the General Bank. The loan of 20,00,000 Ct. Rs. was completed at the period prescribed and appropriated as originally intended, in the present state of our Treasury conformably to the Regulations in force, this debt cannot with

[7] P. P. 213—220, January, 1787.

justice be discharged until the Certificates deposited as a collateral security stand next for payment upon the Register.

"Paragraph 11. Your instructions which relate to Banks in general, which were written before you could possibly be apprized of the nature of our engagement are therefore suspended for the present, but the Directors of this Company have been warned that it is our intention to desolve [*sic*] the connection within eight days after the payment of the loan received from them, in case you should confirm these orders having considered the reference above attended to."

General Bank virtually banker to the Government.

The Government of Cornwallis carried the day. The General Bank of India was virtually appointed the banker to the Company, although the Government continued to have their independent treasury. It should be remembered however that it was only with the amalgamation of the three Presidency Banks into the Imperial Bank of India in 1921 that the independent treasury system has been finally abolished.

Bengal Bank protests against acceptance of General Bank Notes at Public Offices,

The Bengal Bank was naturally mortified at this success of its rival. The proprietors of the Bengal Bank protested against the recognition of the General Bank Notes by

the Government in a long letter dated January 11, 1787 addressed to Cornwallis,[8] in course of which they stated :—

" . . . . We take the liberty of observing that the propositions must have a very material Effect upon the general Credit and Circulation of this City, that the Public and every Commercial House is interested in the consequences of it that is right for your Lordship's wisdom to determine how far the sentiments of men of the greatest experience may coincide in the advantages and disadvantages which will result from the Plan to the community at large. With respect to ourselves as a Bank We are under the necessity of observing that We must Suffer an extraordinary degree of Injury, should the propositions receive your Lordship's Sanction and the Superiority aimed at be established by your exclusively authorizing the receipt of the Notes of the General Bank at all the Public Offices of this City."

but to no purpose.

On the very next day, Cornwallis replied[9] that the Board had carefully considered the application but were not prepared to rescind their resolution appointing the General Bank of India as the banker to the Government and agreeing to accept its notes at all public offices in Calcutta.

8 O. C. 15, January 17, 1787; P. P. 379-80, January, 1787.

9 O. C. 15, January 17, 1787.

Reason for the refusal.

The proprietors of the Bengal Bank could not have chosen a more inopportune time for pressing their claims. The fourth item for consideration by the Governor General and Council on the same day, January 17, 1787 was a report from the Secret Department making serious allegations against Messrs. Jacob Rider and Thos. Henchman. They had sometime ago been put under suspension[10] and had protested against punishment before the establishment of their guilt.[1] Their letters were put up before the Governor General in Council for orders, who disregarded these prayers and passed the following resolutions[2] :—

"Resolved that the advocate general be directed to prepare without delay a Bill or Bills in Equity against Mr. Jacob Rider for a discovery and account of the profits made by him on the contract for Raw Silk which he held with the Company between the 31st of October, 1774 and the 31st of March, 1778 against Mr. T. Henchman for a discovery and account of the profits made by him upon the several contracts for Raw Silk which he entered into with the Board of Trade on the

10 The order suspending these officers among others is quoted in P. P. 334—8, January, 1787; O. C. 4A, January 17, 1787.

1 The letters of protest are given in P. P. 339—46, January, 1787; O. C. 4B, January 17, 1787.

2 O. C. 4C, January 17, 1787; P. P. 346, *et seq.*, January, 1787.

14th day of March 1775 and the 16th of April 1778.

"That the Company's attorney be directed to file without delay the Bills which shall be prepared by the advocate general, and that the Standing Council [*sic*] and attorney of the Company be directed to give the Advocate General every assistance which he may require from them in preparing these Bills."

Form of Bengal Bank Notes.

The notes about which so much fuss was made were quite different in form in the two banks. A copy of a Bengal Bank note in circulation is given below[3] :—

বেঙ্গাল ব্যাঙ্ক

No. $\frac{2}{2749}$ Bengal Bank,

CALCUTTA
এক শত
টাকা সিক্কা

15th November, 1791.

I promise to pay Ramcaunt Dutt[4] or Bearer on demand One Hundred Sicca Rupees.

One hundred — For the Bengal Bank

Exd. — Benjamin Mee

[3] Cooke's *Rise, Progress and Present Conditions of Banking in India* (Calcutta, 1863), p. 391.

[4] It seems strange at the present time that the name of the first holder or issuee should appear on a bank note. But it must be remembered that the first bank notes in England were the "goldsmith's notes," *i.e.*, receipts granted by goldsmiths for monies lodged with them by a depositor, whose name necessarily appeared on the receipts issued to him.

Form of General Bank Note.

An idea may be formed about a General Bank note from the following Business Notice[5] :—

"The public are requested to observe, that the Notes of the General Bank will be signed for the Directors and Proprietors by the Cashier, entered by the Register and countersigned by one of the Directors in manner and form following, *viz.*,

No. Calcutta 17

I promise to pay out of the Joint Stock of the General Bank of India to...................... or order, on demand, the sum of Sicca Rupees....................

For the Directors and Proprietors of the General Bank of India.

Entd. A. Mair, Register

Wm. Luard, Cashier.

D. G. B. I."

Earliest English Bank Notes: (a) Goldsmith's Notes.

It will be noticed that the Bengal Bank notes were made out to "bearer" and the General Bank notes to "order". The goldsmith's notes of England, the precursors of bank notes and cheques, were made out in both these forms.[6] The printed notes were introduced in England by Messrs. Child & Co., in July, 1729. Spaces were left blank for filling in the name of the

5 *Calcutta Gazette*, May 25, 1786.

6 Mc. Leod's *Theory and Practice of Banking*, Vol. I, p. 281.

payee and of the amount. Two of the earliest English bank notes are reproduced below, one made out to "order" and the other to "bearer"[7] :—

Picture of Temple Bar	No. 921	London, Oct. 20, 1729.

I promise to pay to Mr. Richard Bannister, or order, on demand, twenty pounds

For Fras. Child, Esq.,

£20 Sam. Child.

Picture of Temple Bar	No. 1792	London, 8 Decemb., 1729.

I promise to pay to Mr. Chr. Diggs, or bearer, on demand, thirty pound

For. Fras. Child, Self & Co.,

£30 Sam. Child.

(b) Bank of England Note.

The earliest Bank of England Notes were also issued to "bearer" like the Bengal Bank Notes. There is a unique collection of old Bank Notes in the Library of the Institute of Bankers, London. The oldest £1 Bank of England Note in that collection is the third of the first series, which is reproduced below[8] :—

7 *Ibid.*, pp. 283, 284.

8 The Secretary of the Institute of Bankers, London, has kindly permitted the reproduction of this note.

No. 3......... No. 3.........

17 Seal of the Bank of England. 97

2 March 1797...........................

I promise to pay to Mr. A. C. Newland or bearer on Demand the sum of One Pound...................

London the 2 day of March 1797.

For the Govr. and Compa. of the Bank of England

S. Triquet.

£ ONE

Entd.

Corresponding indigenous instrument.

The corresponding instruments of the indigenous bankers were then (as now) the *dursani dhanijog hundis*, which were on demand bills, not necessarily payable through a respectable person.[9] They passed from hand to hand and served the same purpose as a bank note. A modern form is given below[10] :—

9 For the difference between a *Shahjog* hundi and an ordinary *hundi*, see *ante*, p. 32, footnote.

10 For this I am indebted to Mr. S. N. Lala, Lecturer, Calcutta University.

Nam......................Miti..........
Upar Kari............Rakhya.....
Rupaya...................Dastakhat.

Nam......................Miti...............................
Upar Kari........... Rakhya..........................
Rupaya.................Dastakhat......................

Shri Ganeshaya Namah.

Hundi *On*
No...... *Demand*

Sidha Shri.........shubhasthanek sripatri ....ko jog likhi Mirzápurse Rámrick Dás Parshotam Dás ká Rám Ram banchana. Agé hundi kitá 1 ápké upar kari ru.........ankan ru ....ke nimé ru.........ké dûné pûre dena ihán rákhyá.........ké miti.........sé pahunche dám dhanijôg hundi ki rit thikáná lágyá chowkas kar dam déna hundi likhi miti......... bár.........sambat.................

An English translation is given below:—

No..........................Date.........................
Drawn on.................. In favour of..............
Rupees...................... Signature..................
....
No.......................... Date.........................
Drawn on.................. In favour of..............
Rupees...................... Signature..................

Salutation to God of Success.

Hundi On
No...... Demand

[Let] there be success to brother........... of the auspicious place...........and [let] there be conveyed to him the greetings of Ramrick Das Parshotam Das writing from Mirzapore. Now we have drawn on you one *hundi* for Rupees..........., in words Rupees.............., half of which is Rupees.............., double of which is to be paid, in favour of..........., dated..........., which please honour on presentation by making payment carefully according to the custom of *Dhanijog hundis.*

Date of writing......day......Sambat....

Signature...............................

It is therefore clear that this *hundi* like any other is a request to pay, addressed from one place to another, and is meant primarily for the purpose of remittance, its use as currency for local circulation being extremely limited. The need for paper currency in the convenient form of notes was then a much greater necessity than now, for in those days the currency in Bengal was in a state of hopeless confusion. The favourable balance of trade brought to Bengal rupees issued from various mints in other parts of India, circulating at varying discount or *batta.* Even the rupees coined at the different mints of Bengal did not circulate at par. On account of this chaotic state of Bengal Currency, the Court of Directors of the East India Company referred the

Scheme of paper currency first mooted in 1772.

whole matter to Sir James Steuart, Bart., who wrote in 1772 his classic treatise "*The Principles of Money applied to the present state of the Coin of Bengal.*"

Sir James Steuart's scheme of paper currency.

The last portion of the book is devoted to methods "for extending Circulation by the means of Paper-credit" in the course of which he stated[1] :—

Notes issued by the Government not feasible.

"I have without success investigated every principle upon which a paper currency, *under the authority, and upon the credit of the Company*, can be established. But the principle upon which this branch of credit is grounded, is totally incompatible with sovereign power. It is founded on private utility, and it has even occasion for a superior authority to keep it within bounds."

Hastings's attempt to introduce paper currency.

Subsequent events proved the truth of Sir James Steuart's remarks. In 1780, Warren Hastings proposed a scheme of paper currency. The plan is outlined in the following draft advertisement[2] :—

1 Sir James Steuart's *Principles of Money*, p. 74.

2 Prof. J. C. Sinha's paper on "*Some Currency Reforms of Hastings*" read at the Sixth Meeting of the Indian Historical Records Commission held at Madras in January, 1924.

"Whereas the Governor General and Council did cause to be deposited in New Fort William in the month of June 1777, a sum in treasure equal to thirty lacs of Sicca Rupees for the purpose of answering extraordinary Exigencies, in the event of any interruptions happening to the Collections of the Publick Revenue, from War or any other great calamity, and have continued the same in Deposit to this time and whereas it is their desire to perpeutate this fund for the said purpose, and at the same time to remedy the Publick inconveniences, which have arisen or may arise to the Government and Commerce of these Provinces, from the want of so considerable Portion of the Current Specie thus withdrawn from circulation. . . . They do hereby give public notice, that it is their intention to issue notes from their Treasury either for ready money which shall be tendered, or in payment of demands on the Treasury, to such persons as may chuse to receive them in lieu of ready money, which notes shall be signed by the Governor-General and Council and sealed with the Seal of the Company, and be made payable on demand, either to the Bearer or order, at the Option of the parties receiving them, and shall be granted for any respective sum, not less than 100 Current nor more than 10,000 Current Rupees—the Deposit in the New Fort William will remain as a Security

for the collective amount. The form of the notes will be as follows :—

Form of a Note payable to Bearer.

No.

Seal of the Calcutta th, 1780.

Company

We, the Governor General and Council of Fort William, do, on behalf of the United Company of Merchants of England trading to the East Indies—promise to pay at our Treasury in Calcutta on Demand . . . .

....

....

Failure and the reason.

Hastings could not have chosen a more unpropitious time for his currency reform than 1780. At that time, war was being carried on with the French, the Dutch, the Mahrattas and the ruler of Mysore, and Bengal was being continuously drained of specie. Hastings did not realise that the cause which had brought about a scarcity of currency and called for the issue of Notes could not maintain them in circulation. The credit of the Government was so low that a novel currency measure like the issue of Notes by the Government had no chance of success. It is therefore clear that the plan failed for the reason assigned by Sir James Steuart in his *Principles of Money*, *viz.*, that notes issued by

an impecunious government, prone to raid its reserves, could not circulate.

State Bank an impossibility.

Sir James next examined the question of issuing notes, not directly by the Government but through the intervention of a State Bank. He stated the following reasons for discarding this proposal also as impracticable[3]:—

"Were the Company to open a bank in Bengal, such as the Bank of England, were this to become there, as the other is in London, the center of all circulation and were it to get possession of a great part of the coin of Bengal, what security could be given, that upon a pressing occasion, the treasure might not be spent in defence of the country? Were it made a bank purely of deposit, like the Banks of Amsterdam, Venice, Nuremberg, and many others upon the continent; the deposit contained in it would be exposed to the same danger. Were it established upon the mortgage of land property, and upon the best personal security, as the banks established in Scotland are; the former inconvenience would not indeed be so great, because the quantity of the bank treasure never could carry as high a proportion to the notes in circulation. But on the other hand, where is there to be found a solid property in land[4] to

3 *Principles of Money*, pp. 74—76.

4 This was before the Permanent Settlement.

be mortgaged for such an immense quantity of paper as is the unavoidable consequence of this plan of banking? And this growing deficient, the powers of such a bank would be very limited." . .

Bank proposed by Sir James Steuart.

Although the fact was overlooked both by Cornwallis and by his advisers, the plan proposed by Sir James Steuart, after considering many alternative schemes, actually came into operation fifteen years later in 1787, when Cornwallis appointed the General Bank of India to be the banker to the Government and agreed to recognise its notes. The following extracts from the *Principles of Money* outlining a plan for a bank of issue will show that although a theorist,[5] he studied the prevailing conditions with so much care that he proved a true prophet[6]:—

Shares to be subscribed by Government Officials.

". . . the lending of money to strangers, by the servants of the Company who have a redundancy of wealth, contributed not a little to produce a drain of specie from Bengal. . . .

"Let us then suppose the money borrowed

5 To give only one instance of his contribution to economic thought, Sir James Steuart was probably the first writer to suggest symmetalism, for on page 10 of his *Principles* we find: "Were mankind all philosophers, I should propose to mix the gold and the silver together in the same mass, according to the market proportion of the metals, and to make coin out of this mixture."

6 *Principles of Money*, pp. 77—89.

by the Company from their servants in India, to be sufficient to compensate what the latter now lend to strangers.[7]

"Were it proposed to them, either to subscribe their claims upon the Company, into a banking fund; or to receive reimbursement from the Company, to the extent of what may be subscribed by others for this purpose; this new fund may be divided into shares, of . . . rupees, transferable as the funds are in England, bearing . . . per cent. interest, irredeemable by the Company for . . . years, and an exclusive privilege may be granted to the subscribers for the same number of years, for the purpose of carrying on a banking trade; by the issuing of notes in the discounting of good bills payable in . . . days; or in consideration of pledges of treasure, jewels or precious effects deposited in the Bank: Or upon the mortgage of good property, and the best personal security: Or in the purchase of gold and silver: Or lastly, for advancing certain sums of money to the Company, upon the Security of their annual

The business to be undertaken.

[7] Sir James Steuart was correct in this supposition. The principal shareholders of the General Bank of India were high officials of the Government. When the Governor General prohibited them from acting as Directors of the General Bank, the Chairman had to ask him to rescind this order for otherwise a Board of Directorate could not be formed. (See *post*). The principal shareholders of the Bank of Calcutta were also Government servants.

revenue, according to the practice of the Bank of England. All these articles of credit to be given in consideration of such rates of interest, as to the Company may seem reasonable; . . .

. . . . the East India Company may with safety receive in payments the paper (*i.e.*, the note) it (*i.e.*, the Bank) issues . . . to the extent of the money owing by themselves: Or they may furnish out of their treasures what coin may be necessary for the ready discharge of such notes as may be presented for payment at the Bank.

Notes to be recognised by the Government.

"It will no doubt be necessary that the managers of the banking trade should quarterly lay before the properties an exact state of the notes in circulation, and of the securities received by the Bank, at the time of their being issued. And for the greater security against the malversation of those who are in the direction of the Bank, and who must be chosen into the direction by the body of proprietors; let it be declared, that the sum of . . . in the banking stock shall be necessary to entitle any one to be a director: And further, that the whole property (in India) of such directors, shall be pledged (while they hold their office) as an

Meetings and Directors.

additional security for their good administration.[8] . .

Branches.

. . "It may . . open offices in all the principal cities of Bengal;

. . "In short, it is impossible to fortel (*sic*) the many advantages which may follow the establishment of credit, secured upon a solid fund of property in the hands and under the protection of the Company, who are to have no share of the profit, and the greatest interest in preventing the issue of paper upon precarious securities.

Relation with the Company.

"It would not I think be proper to admit any person of the council to be either a governor, or a director of this bank; but I think it would be expedient to secure the property of the fund for the payment of the bank paper, exclusive of all other engagements the banking company may contract.

High Officials not to be Directors.

. . . "The success of the Bank, and the prosperity of paper credit, will solely depend upon the nature of the securities taken by the bank upon issuing their notes. If ever this bank shall carry on trade; if ever they shall pay for goods with their own paper; if ever

The dangers.

8 This provision if adopted to-day will certainly ensure a better sense of responsibility on the part of directors.

they shall lend this paper on precarious security; the ruin of the bank and of the credit of the Company in Bengal will be the infallible consequences."

Time for caution not yet.

The similarity between the plan outlined by Sir James Steuart in 1772 and the plan actually in operation in the General Bank after its appointment as the banker to the Government is striking. But the time for warning was not yet. The General Bank was then forging ahead, expanding its business in every possible way and exploiting its connection with the Government to the utmost.

General Bank proposes to remit funds to the *mofussil* by Post Bills.

The General Bank of India did not rest content merely with the recognition of its notes by the Government. It also tried to circulate its Post Bills with the assistance of the Government. It offered the same advantageous terms as the Bengal Bank. Thus Post Bills aggregating Current Rs. 12, 15, 463-9-9 were issued to the Government on February 23, 1787 in exchange for Government Promissory Notes for the same amount and repayable at the same time.[9] These were to be sent to the *mofussil* for purchasing the "investments" of the East India Company in different Bengal districts

[9] P. P. 2224—29, June, 1787; O. C. 17, June 18, 1787.

and negotiated either with local *shroffs*, or, failing them, with the public Treasuries of the place. Eventually, they were to be returned to Calcutta, either to the Bank direct for payment to the agents of the negotiating *shroffs*, or to the Accountant General as vouchers for payment made by the different Treasuries. In respect of the second lot, there was to be merely a paper transaction; the Accountant General was to receive Promissory Notes from the Bank in exchange for the Post Bills handed by him.

The first remittance.

The plan did not work well. None of the Post Bills issued on February 23, 1787 were negotiated by *shroffs*. Those discounted at the *mofussil* treasuries were not returned to Calcutta by the due date, April 2, 1787. The Accountant General was in a fix. He persuaded the General Bank to accept in lieu of the Post Bills, which had not yet arrived, a "Receipt for each Bank Post Bill issued to be hereinafter delivered up by the Cashier in discharge of these Bills to the Accountant General to the Revenue Department as they might be presented . . . . to the Bank for payment."[10]

On April 13, Post Bills for Current Rs. 3,56,507-3-1 payable at 46 days' sight were

[10] P. P. 2224—29, June, 1787; O. C. 17, June 18, 1787.

The second remittance.

issued by the Bank against Promissory Notes for the same amount and having the same due date. On June 1[1] when they fell due Bills for only Current Rs. 96,813-15 had reached Calcutta but the General Bank without adopting the same procedure as before obtained payment in cash of the outstanding Promissory Notes, which could not be redeemed by tendering Post Bills in exchange.[2] The Accountant General protested against this departure from the previous arrangement and pointed out that the Bank had "not advanced Government more than Current Rs. 31,250, the amount of a Post Bill No. 310 granted in the name of E. E. Pote and endorsed by him to Mutunga Gangooly, which is as yet the only instance of any of those granted to Government [that] have been negotiated by an individual, not one of their officers."

The sequel.

The Chairman of the General Bank in his letter dated June 9, 1787 promised to abide by the directions of the Accountant General but pointed out at the same time:—"When any individual purchases a post Bill he immediately pays ready money for it. By which mode the Bank gains the employment of the

1 It is therefore clear that the Bank Post Bills took 3 days of grace.

2 P. P. 2224—29, June, 1787; O. C. June 18, 1787.

money during the Term of the post Bill, with such additional Advantages as may accrue from the Bill remaining out beyond the Term. Instead of this mode, the Government when taking our Post Bills pay as by a promissory Note payable at a Term equal to the Term of the post Bill whereby the Directors give in favour of Government the usual and established profits in the issue of post Bills." The Accountant General saw the justice of the contention of the Bank and, as the arrangement suited neither party, he persuaded the Governor General to rescind the arrangement.[3] Thus the endeavour of the General Bank to circulate Post Bills in the *mofussil* with the assistance of the Government proved as abortive as the previous attempt made by the Bengal Bank. Probably the reason was the same in either case. The Residents and Factors in the *mofussil* were unable to raise money locally from the indigenous *shroffs* by independent efforts for the purchase of "investments." The Governor General was unable to repay his debt to the General Bank. These show that the credit of the Government was low. It can therefore be presumed that this was the real trouble,—not the novel form and procedure of the Bank Post Bills.

Not only were Bank Post Bills and other bank instruments quite different from the

[3] P. P. 2232-33, June, 1787; O. C. 19, June 18, 1787.

Water-marks in bank instruments.

corresponding indigenous instruments in form, other new features were also introduced from time to time to prevent forgery. Water-marks were used in notes and other instruments of the General Bank in 1789, probably for the first time in India, for otherwise the method of discovering water-marks explained in the following notice would have been clearly unnecessary[4]:—

"Notice is hereby given that all Notes, Bank Post Bills and Checks, now issued by the General Bank of India have a Water Mark in the Paper containing the words 'General Bank of India' in the center of the Notes or Checks, which is easily discernible by holding the paper up to the light. The Holders of notes not having the Water Mark are requested to send the same for payment to the Bank."

Cornwallis not only favoured the General Bank by recognising its notes but also injuired

Withdrawal of Public Officials from Bengal Bank and its effect.

the Bengal Bank by directing that its leading spirit, Mr. Edward Hay should retire from the business, he being an important Government official, *viz.*, the Secretary of the Secret Department.[5] The result was that the Bengal Bank rapidly lost prestige and popular support. The pro-

[4] *Calcutta Gazette*, July 30, 1789.

[5] *Calcutta Gazette*, December 28, 1786.

prietors were obliged to deviate from their original intention of conducting the business of the Bank in "the same plan as the banking business in England." Thus in 1788, the Bank promoted a lottery and made itself "answerable for the amount paid in [by the purchases of tickets], should any accident prevent the Lottery being drawn."[6]

Exchange business.

The Bengal Bank felt the competition of the General Bank so keenly that it was obliged to employ its funds in new directions. In the *Calcutta Gazette* of July 10, 1788, there is a business notice which shows that the Bank had been carrying on exchange operations for some time past. The exchange business of those days was quite different from what it is now. For one thing, there were no T. T.'s or telegraphic transfers. Only bills were dealt in and those also during certain weeks, when ships for London left the port of Calcutta. The Company's ships generally started from England at the beginning of every year, reaching Bengal about July or August. They sailed at the end of that year or the beginning of the next. Remittances to England could be effected only at that time but advertisements were published in the *Calcutta Gazette* months ahead. For instance, the following business

6 *Calcutta Gazette,* November 27, 1788.

notice was published in the *Gazette* of April 14, 1791 :—

"*Remittance to Europe*

A remittance will be opened on the 1st of January on the following terms :—

		s.	d.		
Bills at Thirty Days	...	1	10	per	Ct. Rup.
————Three Months	...	1	11		do.[7]
————Six Months	...	2	0		do.
————Nine Months	...	2	1		do.

The Bills will be accompanied with the Collateral Security of the Company's Bills to equal amount.[8]

Further particulars may be known at the Bengal Bank."

Bankers of public bodies.

The Bank of Hindostan, so intimately connected with an Agency House, naturally carried on exchange operations also. But it could not successfully compete with the Bengal Bank in attracting deposits

7 Thus the difference between 30 d/s rate and 3 m/s rate was as much as 1d.; it is now about 1/16d. The discount rate in London which according to the theory should determine this difference was higher than now. There were two other reasons for this disparity. Firstly, the exchange rate on which discount has to be computed was then higher. Secondly, there were greater risks in business, which had to be allowed for in those days.

8 The meaning is not quite clear. It seems that the Bengal Bank purchased from the Government of Bengal sterling bills on the Court of Directors and remitted them to London. Against these funds it drew drafts of small amounts on its London agency. The principle of "covering" was not therefore unknown to the early European Banks.

of public funds raised by subscription for specific purposes. As early as September, 1784, the Bengal Bank was appointed the banker to the Calcutta Assembly in preference to the Bank of Hindostan.[9] It was the Bengal Bank again which received subscriptions for the relief of non-commissioned and private Europeans of the King's and Company's troops and other Europeans, who were prisoners to Hyder Ali and Tippoo in the Deccan War.[10]

Reduction in Discount rate by General Bank

But the General Bank made a rapid headway. One of the reasons for the establishment of the Bank was to relieve the stringency of the Money Market, as stated in the preamble of the Deed (mentioned on pages 10 and 11 *ante*) The discount rate was 12 per cent. when the Bank was started. This was reduced to 10 per cent. with effect from November 1, 1788[1] and further reduced to 9 per cent. on October 6, 1789.[2]

and by Bank of Hindostan.

The Bank of Hindostan was also obliged to reduce its interest and discount rates and "make Loans under Collateral Securities of Company's Paper, and Discount Good Bills of Exchange, at the rate of

9 *Calcutta Gazette*, September 30, 1784.
10 *Calcutta Gazette*, July 10, 1788.
1 *Calcutta Gazette*, October 2, 1788.
2 *Calcutta Gazette*, October 8, 1789.

Ten per cent. per Annum" with effect from June 18, 1789.[3]

Special facilities offered by General Bank.

But the General Bank succeeded in the face of this keen competition for various reasons. First of all, from the beginning it gave as much facility to its customers as possible. It resolved to forego its commission on ordinary banking transactions, which are not gratuitously performed even at the present time. Thus in the *Calcutta Gazette* of December 21, 1786, the Bank announced that it was prepared to receive Bills of Exchange, Company's paper etc. to be realised when they fell due without charging "any commission upon this or any other business." The Bank also made arrangements for financing inland trade for bringing goods from the *mofussil* to Calcutta. In the *Calcutta Gazette* of June 11, 1789, we find the following advertisement:—

"Regulations have been formed at the General Bank of India for the accommodation of Merchants and others residing in the *aurangs*[4] or at the outstations by assisting them with Loans on the Security of Goods, consigned to their Agents in Calcutta for Sale."

3 *Calcutta Gazette*, June 18, 1789.

4 Places where goods are manufactured for sale. This arrangement obviated the necessity for having branch banks advocated by Sir James Steuart.

Corruption stamped out.

The second reason was that the Bank rigorously put down all corruption, which was rampant at that time even in the public service.[5] A bribe was then taken to be a part of one's salary and it was not regarded immoral either to accept or to give bribes. The General Bank took prompt and severe measures against all delinquents. A clerk named Bahary Loll Baboo was dismissed as soon as he was detected in taking *Dustoor* or brokerage on some bills offered for discount at the Bank.[6] To put a stop to this evil practice,

5 For an example of this, see p. 42, *ante*.

6 This must have been an isolated instance, for the following generous tribute has been paid by Cooke to Indian bankers and bank employees :—

"The character and extent of Indian Banking has been frequently cited in refutation of the unjust calumnies with which the opponents of Indian political reform have aspersed this nation. There can be no surer proof of the soundness of a people's moral condition, and of their habitual regard to truth in the transactions of life, than the prevalence of so much credit as is necessary to the existence of such a system of Banking. The native Bankers themselves are patterns of commercial morality. The dishonouring of a hoondee is an event of rare occurrence with them. They transact business with each other, and with their constituents, with a total disregard of those forms which English commercial men deem essentially requisite, and, without the aid of which, indeed, an English house of business would scarcely be secure. One peculiar feature of native Banks has always struck us as peculiarly gratifying. The business is usually carried on by *gomastahs* or clerks holding a confidential position in the firm. They are often poor men, and yet are never called upon to furnish security. Their remuneration is not high, and they have often the entire disposal of the Capital of a *Cootee* [*i.e.*, *agency*], yet it rarely happens that a firm loses anything by their dishonesty." (Cooke's *Banking*, p. 15).

the Bank published notices both in English and in Bengali in the *Calcutta Gazette* of July 17, 1788 informing the public about this dismissal and the reasons for it.

Abuses prevented.

Strict measures were also enforced against superior officers in order that they might not involve themselves in private business of their own, which they might be inclined to promote to the detriment of the Bank.[7] This prohibition was subsequently cancelled, as notified in the *Calcutta Gazette* of July 29, 1790 as it had already achieved its purpose.

Efficient method.

The third reason for the success of the General Bank was undoubtedly its efficient method of doing business. The Bank undertook to answer tenders of Bills and Notes for discount on the same day if handed in before 1 o'clock.[8] Satisfactory arrangements were made for payment in specie when there was a general scarcity of silver.[9] This is clear from the following advertisement published in the *Calcutta Gazette* of July 5, 1787 :—

"From the numerous applications daily made for silver which the Bank are unable to comply with in the present scarcity, the Directors beg leave to inform the public that whenever the amount of silver in the Bank

7 *Calcutta Gazette,* May 14, 1789.

8 *Calcutta Gazette,* July 5, 1788.

9 For a fuller account of this and the sequel, see *post*.

shall exceed Sa Rs. 50,000 (that sum being necessary to carry on the Current business), a due proportion will be issued in all payments."

The Bank steadily prospered under this efficient management. The business was

Bank Premises.

started in a hired "house adjoining Messrs. Baxter and Ord's Europe shop" on June 1, 1786. In four months, the Bank purchased this house from the owner Mr. Davies, who "invested the whole of the purchase money in the Stock of the Bank."[10]

On December 1, 1786, the first half-yearly general meeting was held at the Bank. The

First General Meeting.

report of the meeting was published in the next issue[1] of the *Calcutta Gazette* in English, Bengali and Persian. This is believed to be the first report of its kind in India and is therefore extracted below:—

"General Bank of India.

"The Directors of the General Bank of India being desirous of communicating to the Public, in General, and to Proprietors at a distance, in particular, every possible information on the subject of the *Funds* of the Bank, which may with propriety be divulged have judged it proper to publish in the country Languages as well as in English,

10 *Calcutta Gazette*, October 12, 1786.
1 *Calcutta Gazette*, December 7, 1786.

the following state, which was laid before a General Meeting of the Proprietors on Friday last, the 1st instant, when the first half yearly dividend was declared :—

"State of the Profits of the General Bank of India from 1st of June to the 30th of November, 1786 :—

Discount &c., &c.	2,01,052	2	8
Deduct Sundry Expences	28,296	9	0
Nett Profit S. Rs.	1,72,755	9	8
Or Current Rupees	2,00,396	8	0
Which divided into 100 Shares of Sicca Rupees 20,000 each gives a dividend on the full Share of S. Rs. ...	1,727	8	9
On ¾	1,295	10	6
On ½	863	12	4
On ¼	421	14	2

M. C. HORSLEY,
Secretary."

Dividend.

It is not clear however whether the full amount of this dividend was paid out, for according to Article 11 of the Agreement only two-thirds of the profits could be divided during the first two half-years until the Article was amended on December 1, 1787. Rs. 57,585-0-5 was carried forward to the second half year's account from the first half year's.

Press Comment.

This result was acclaimed by every body with great satisfaction. The Editor of the *Calcutta*

Gazette in the issue dated Thursday, December 7, 1786 commented as follows :—

"On Friday last, was held a meeting of the Proprietors of the General Bank, for the purpose of receiving a report on the state of the funds, dividend etc.

"The Directors laid before the meeting a very flattering statement by which it appeared, that after deducting all charges, to which the management of the business has hitherto been subject, and which in the outset of such a plan must necessarily be heavier than may hereafter be expected, there remained a balance of Current Rupees Two Lack, Three Hundred and Twenty-six and Eight Annas to be divided among the Proprietors.

"The Directors having thought proper to publish the statement in the native and English languages, the public will have an opportunity of judging for themselves: We shall therefore only observe, that a system of conduct, so open and avowed must undoubtedly reflect the highest credit on those to whom the management is entrusted and secure the unlimited patronage of the public; while so convincing a proof of the success of this liberal institution, at the same time that its operations have been so generally beneficial must be peculiarly mortifying to those of its opponents,

who so assiduously struggled to prevent its establishment."[2]

Peculiarities of the Company Report.

The editor of the *Calcutta Gazette* praised the "open and avowed" "system of conduct" of the General Bank of India. But what was published for general information was really a compressed profit and loss account. Presumably, no further particulars were given to the shareholders, for, as is evident, the *mofussil* shareholders received no separate report apart from the notice in the *Calcutta Gazette.* The balance sheet of the Company was not given out all, not to speak of "an exact state of the notes in circulation, and of the securities received by the Bank, at the time of their being issued" called for by Sir James Steuart in the plan of the Bank proposed by him. But there can be no doubt that the notice was justly acclaimed in those days of private partnership.

Subsequent reports.

The revenue and expenditure for the first and subsequent half years are tabulated below :—

2 This opposition to the establishment of the General Bank of India was also mentioned in the *Calcutta Gazette* of April 27, 1786. See p. 26, *ante*.

Half-year.	From.	To.	Interest Discounts, etc. (Current Rs.)			Expenses. (Current Rs.)			Balance. (Current Rs.)			Date when the report was published in the *Calcutta Gazette*.
First	June 1, 1786	Nov. 30, 1786	2,33,220	...	1	32,823	8	1	2,00,396	8	...	Dec. 7, 1786
Second	Dec. 1, 1786	May 31, 1787	1,58,067	12	9	52,583	8	5	1,05,484	4	4	June 14, 1787
Third	June 1, 1787	Nov. 30, 1787	2,01,942	7	7	41,746	7	8	1,60,195	15	11	Dec. 6, 1787
Fourth	Dec. 1, 1787	May 31, 1788	1,93,894	15	1	36,295	8	8	1,57,599	6	5	June 5, 1788
Fifth	June 1, 1788	Nov. 30, 1788	1,83,972	1	3	35,011	8	...	1,48,960	9	3	Dec. 4, 1788
Sixth	Dec. 1, 1788	May 31, 1789	1,66,477	11	8	30,710	9	9	1,35,767	1	11	June 4, 1789
Seventh	June 1, 1789	Nov. 30 1789	1,33,600	0	8	31,896	7	11	1,01,703	8	9	Dec. 3, 1789
Eighth	Dec. 1, 1789	May 31, 1790	1,26,620	13	0	26,284	4	7	1.00,336	8	5	June 3, 1790

It appears, therefore, that the Bank never attained "a steady dividend paying stage."

Causes of fluctuating profits: economic unsettlement.

For one thing, it did not care to build up reserves with a view to equalise dividends. For another, the economic condition of the country was then unstable to a degree that is unthinkable at the present time. After the battle of Plassey, the political power passed into the hands of the East India Company but the responsibility for law, order and good government remained with the puppet Nawabs, who were unable to enforce administrative measures. This regime of power without responsiblility under a trading company, whose primary aim was trade profits, had the inevitable consequences of inefficiency and corruption in the public service; of poverty and destitution among the people; of destruction of the trade and industries of the province; of calamities like the Great Famine of 1770. Warren Hastings tried to reconstruct the economic life of the people by various measures, but he was foiled in his attempts by the greed for gain of the Court of Directors in London. Cornwallis reached India in September 1786 with large powers and large responsibilities, conferred under Pitt's India Act which formed the basis of the Indian administration until the Sepoy Mutiny of 1857. Although a man of sterling character and high ability, he could

not make his influence felt at the time we are considering.

The economic unsettlement referred to above was partly due to the chaotic state of currency in Bengal. Since the adoption of bimetallism in 1766, the gold *mohur* circulated at a varying discount or *batta*. But it was not till the latter part of 1787, that the *batta* caused real hardship, when it rose from 5 as. per Rs. 100 (the current rate in March, 1787) to Rs. 3 (the usual rate in September of the same year). Cornwallis appointed a Committee to investigate the matter.[3] Mr. R. Johnson, the Chairman of the General Bank of India, was a member of the Committee. Mr. Herbert Harris, the Mint Master was the President. The Committee called for written evidence regarding receipts and payments in specie at various treasuries and banks; the amount of specie insured from Calcutta by the Bengal Insurance Office; the amount of gold and silver coined at the mint when the *batta* grew acute; the amount of remittance to *aurangs* by the Government and private individuals. A *questionnaire* was prepared and merchants and *shroffs* were asked to give written or oral evidence.

Currency difficulty of 1787 investigated by a Committee.

The *poddars* or the money-changers were

[3] P. P. 4688—4722, December, 1787; O. C. 28, December 6, 1787. This, it seems was the earliest Currency Committee in India and has been referred to as the Harris Committee.

mostly Bengalees and they tried to fix the responsibility for the *batta* on the *shroffs* or bill brokers, who were mostly non-Bengalees. When the latter came to be examined, they in their turn blamed the *poddars*. It is apparent that there was rivalry between the different classes of indigenous bankers which found its counterpart in European banking in the keen competition and jealousy among the three banks then in existence.

Rivalry between moneychangers and *shroffs*.

The Committee were not unanimous in their findings. One member of the Committee, Mr. C. Cockerell appended a minute of dissent and attributed the *batta* partly to the establishment of the General Bank, stating it was caused "by the sudden and prodigious influx of Bank notes, adding that the General Bank by taking security for their loans set a bad example to the Natives, thereby injuring public credit." The majority rightly pointed out that an increase in the circulation of bank notes could not "cause a scarcity in one particular specie exclusively." Besides the average circulation was then only Rs. 12 lacs and "in England where the Bank Note in Circulation has been immense, no body thought of attributing any temporary scarcity of silver to it." The majority very justly commended the loan

General Bank's notes and loan policy.

policy of the General Bank, stating at the same time that it did not suggest "any example to the Natives detrimental to the Public Credit. Nor has a similar mode in other Banks ever been prejudicial to credit."

Famine of 1788.

Ill-informed aspersions and unjust calumnies were not the only things the General Bank had to contend against. In the beginning of 1788, there was a famine of great severity, almost recalling the horrors of the Great Famine of 1770. In the letter to his wife dated April 22, 1788, Shore (afterwards Lord Teignmouth) wrote,[4] "This year we have been afflicted with a great scarcity; so much so, that many mothers have been compelled to sell their children. . . What do you think was the price given for each?—from ten shillings to twenty. . . . Many thousands are daily maintained by public contributions." Subscriptions were invited through the *Calcutta Gazette* and received by the General Bank and the Bengal Bank. There were other firms also which received subscriptions but curiously enough not the Bank of Hindostan.[5]

Even before the famine grew very acute, there had been a scarcity of loanable capital

4 *Memoir of the Life and Correspondence of John Lord Teignmouth* by his son Lord Teignmouth (London, 1843) Vol. I, pp. 156-7.

5 *Calcutta Gazette*, July 10, 1788.

Effect on Money Market.

due to disturbance to credit, and a rise in the rate of interest in consequence. The General Bank could no longer afford to lend money to the Government at 8 per cent. Mr. Johnson, the Chairman of the Bank addressed a letter to the Governor General on April 28, 1788, requesting that the Company's debt to the Bank of twenty lacs of Current Rupees might be discharged.[6]

The following resolution was passed on this letter[7] :—

Government resolution regarding repayment of loan to General Bank

"Resolved *that the Debt due to the* General Bank be liquidated as fast as the Certificates issued as a Collateral Security shall come into the course of payment but as they are entitled to receive from the Company certain proportions of the whole debt at first periods the whole or any part of such proportions that may remain unpaid shall bear an interest of 12 per cent. per annum from the dates on which they become due. After the whole of the Loan shall bear that rate of Interest the Officers of Government in obedience to the 314 paragraph of the General Letter of the 27th March, 1787 p. *Minerva* will be prohibited by public Advertisement from receiving the Notes of any Bank on the Public Account.

6 P. P. 3267-8, April, 1788; O. C. 13A, April 28, 1788.
7 P. P. 3268-9, April, 1788; O. C. 13B, April 28, 1788.

The Certificates are then to be discharged from the General Treasury and the credit which the General Bank now has thereon rescinded by a special order, which however will not be publickly announced as there is no occasion for such an Advertisement of it."

The matter again came up for discussion in June[8] but the Government's connection with the Bank could not be severed as the Government debt had not been paid off. This is referred to in the following letter to the Court of Directors[9]:—

suspended for the present

"The intended publication prohibiting the officers of Government from receiving the notes of any bank on the public account, and notifying that certificates would in future be discharged at the General Treasury, was suspended in consequence of a strong representation from the Chairman of the General Bank, in which he expressed his apprehension that such a measure when Government were indebted in a large amount to the Society might be highly prejudicial to the concerns."

as a result of General Bank's protest.

[8] O. C. 8, June 30, 1788. The draft notice embodied in this consultation meant for publication in the *Calcutta Gazette* announcing that "the Officers of Government are prohibited from receiving the Notes of any Bank on the Public Account" was since cancelled. In fact no notice appeared in the *Calcutta Gazette* at that time.

[9] Letter to the Court of Directors dated November 6, 1788, p. *Pitt*, paragraph 246.

The batta question again brought up.

The economic heresy that the issue of bank notes was the cause of the *batta* on gold *mohurs*, was finally responsible for the severance of relations between the Government and the Bank. On September 8, 1788, Cornwallis wrote the following minute[10] :—

"It being the opinion of some respectable merchants in Calcutta, in whose integrity and judgment I have great confidence that the circulation of Bank Notes tends to keep up the present high *Batta* in the exchange of Gold for Silver.

"I am persuaded that the Board will agree with me that it is our duty to take every measure in our power to remove, or lessen, an evil which occasions so much distress to the commerce of this Country. I propose, therefore, that instead of waiting for the period at which the residual (*sic*) of the Certificates which were issued as collateral security for the public debt to the General Bank would cease in regular course of payment that the small remaining part of that debt be discharged immediately and that the receipt of the General Bank Notes at our public treasuries shall cease after the 30th instant. I purposely mention a distant date that the General Bank may suffer as little inconvenience as possible

10 O. C. 1, September 8, 1788.

by the final dissolution of our connection with it."

Board resolve not to recognise General Bank Notes after September 30, 1788.

The other members of the Board agreed to this and the following notice was ordered to be published in the next issue of the *Calcutta Gazette*[1] :—

"FORT WILLIAM PUBLIC DEPARTMENT
8th September, 1788.

Public notice is hereby given that Government having discharged the Balance that was due to the General Bank the receipt of Bank Notes at the General Treasury and at the Public Offices will be discontinued from the end of the present Month.

E. HAY,
Secretary."

Government's account with the Bank closed in 1789.

Thus was ended the intimate connection between the General Bank and the Government which had excited so much jealousy and heartburning among competing banks. The last mention of the General Bank in State papers is on April 24, 1789 when the following order was

"The year of Account in which the con-

1 O. C. 2, September 8, 1788.

2 April 29, 1789 B. S. p. 247 [B. S. stands for Body Sheets on which orders by the Board were actually recorded].

nection between the General Bank and the Government was dissolved being nearly expired, Ordered that the Directors of the Bank be requested to give the necessary instructions to their Cashier to pay into the General Treasury whatever may now be the Balance of their Account Current with the Government.

"Ordered that the Sub-treasurer be informed accordingly."

Historical Parallel.

There is an interesting historical parallel to this incident. Just as Bengal was the province of greatest commercial activity in India in the latter half of the eighteenth century, so was Holland the most important trading country on the Continent towards the end of the sixteenth century.[3] Foreigners bought in Amsterdam goods brought from all parts of Europe and from the Far East and paid not only for the goods but also for the services of Dutch shipping. These visible and invisible exports had to be liquidated by the import of coins from all parts of the world in different degrees of debasement. Coins of full weight began to disappear and could be brought out only by payment of a high premium or *batta* in terms of light coins. The authorities, however, were of opinion that heavier coins were

[3] The first modern Bank of India was established in Calcutta and that of Europe in Amsterdam.

thrown out of circulation by the increasing use of bills of exchange as a substitute for money. Action was therefore taken against deposit banking, which created credit and credit instruments. "By the statute of July 15, 1608, the business of deposit holding was absolutely prohibited, and the receiving and paying out of money for another person, or its transfer by writing or by word of mouth, directly or indirectly, was forbidden under a penalty of twentyfive per cent., one half to be levied upon the banker, and the other upon the customer. The use of bills of exchange or assignments in making payments was forbidden; and everyone was charged to make and receive payment of his own debts or credits by himself or his agents."[4]

Although the action taken against the General Bank was not so drastic, yet there was an end to the connection between the Government and the General Bank. This had however one silver lining. The return of the Government loan enabled the Bank to reduce its discount rate from 12 per cent. to 10 per cent. on November 1, 1788 and further to 9 per cent. on October 6, 1789. The latter reduction was forced on the Bank, for the Bank of Hindostan had reduced its discount rate to 10 per cent. on June 18, 1789.

Reduction in Discount Rates.

[4] Dunbar's *Theory and History of Banking* (2nd Edition), pp. 97-98.

These reductions in rate explain the dwindling profits of the General Bank from the sixth half year onwards.

Another reason was the loss of prestige and credit owing to the dissolution of relations with the Government. In obedience to the orders of the Court of Directors, Cornwallis had prohibited high Government Officials (who were the principal shareholders) from serving as Directors of the Bank. The Bank was experiencing great difficulty in filling the Directorate. Mr. Lambert, Chairman of the General Bank, was therefore obliged to address the following letter to Cornwallis on December 3, 1789[5]:—

High Government officials prohibited from being directors.

" . . . I was desired in the Name of the Directors and Proprietors most humbly to solicit that you would be pleased to dispense with late restrictions which prohibit the Hon'ble Company's Civil Servants in Certain stations from acting as Directors of the General Bank for it appears that by this prohibitory Regulation, the Bank has lost the services of several Gentlemen; whose known ability and integrity contributed greatly to the benefit of the Institution and in whom the Community at large placed great Confidence for the proper

Bank's application.

5 O. C. 12, December 4, 1789.

management and superintendence of its Affairs—The benefits that the publick has derived from the Establishment have been long apparent and generally admitted. By lowering the rate of Interest progressively, raising the Value of the Company's paper,[6] supporting private Credit, facilitating and extending Commerce in prompt aids of Money to the Merchant and generally by opposing the whole power of its Capital and weight and influence, as a Barrier against the usurious oppressions of Native Shroffs and Money Lenders, which had so long been practised with impunity to the manifest Injury of publick, and utter annihilation of private Credit.[7]

Services recounted.

"These my Lord and many other useful purpose have been and still are the objects of the General Bank of India with the attainment

6 It was announced in the *Calcutta Gazette* of October 1, 1789 that Company's bonds had changed hands at par the previous day. As already stated, there was a discount of nearly 25 per cent. when the General Bank commenced business.

7 This is of course a case of the lion painting himself. Compare with this the following generous tribute paid to indigenous bankers in the following letter from Dacca dated July 4, 1788 and published in the *Calcutta Gazette* of July 10 :—

"It is a fact which should belie many illiberal reflections upon the Hindoo natives, that Juggut Sett, when visited in his last sickness by Mahommed Reza Khan, tore the latter's bond for three lakhs of Rupees, as a return for the kindness and protection received from him, as well as from personal regard.

"How many instances of this kind occur among Bankers at home?"

of which its private emolument has never been suffered to interfere.

"It is established upon a Solid and real Capital, its principles are open and avowed, all its acts publick and notorious. They involve. neither Directors nor proprietors in any dark and implied responsibility beyond the Shares that these respectively possess, and it is presumed cannot influence the Directors in like manner, as if they were Co-partners in a private Banking or Mercantile House—The proprietors therefore presume to hope that your lordship will incline favourably to this request to forward the purposes of so valuable an Institution, by restoring to it, the Abilities and Services of those Gentlemen whom the regulations have removed from the Direction."

Absolute security.

This application achieved its purpose, for in the *Calcutta Gazette* of January 7, 1790 we find that "At a meeting of the Proprietors of the General Bank on Thursday last, John Burgh and Arthur Mair, Esqrs., were chosen Directors in the room of Messrs. Wall and Gale resigned."

Prohibitory order rescinded.

But there was another and more formidable difficulty which the General Bank of India had to contend against. Towards the end of 1789, the campaign against Tippoo Sultan both by the Rajah of Travancore and the East

Mysore War.

India Company was in full swing. There were skirmishes often with honours easy between Tippoo and his opponents,[8] but the prolonged campaign was causing a continuous drain of specie from the Calcutta Money Market. For instance, in the *Calcutta Gazette* of May 6, 1790 we find that the Madras Government had drawn on Bengal for twenty lacs of rupees. There was an acute scarcity of loanable capital as a result of the transference of specie and the disturbance to credit. All the trading houses were finding it more and more difficult to finance their business.

Crisis of 1790.

A crisis was precipitated in March, 1790. Mr. John Hollond was the acting Governor of Madras from February 1789 to February 1790. He wanted to extort bribes from the Raja of Travancore by the offer of help from the Company's army. To do this effectively, he kept the army in an inefficient state, against the explicit instructions of Cornwallis, so as to invite attacks from Tippoo and keep the Raja in perpetual terror. This matter was investigated in the summer of 1790. "The alarm created in Calcutta by Mr. Hollond's conduct was so great, that Lord Cornwallis had determined to go at once to Madras to supersede him, and take upon himself the supreme

8 The *Calcutta Gazette* for 1790, 1791 and 1792 contain copious extracts from Madras letters and give graphic accounts of the campaign.

authority, both Civil and Military; but he relinquished this intention . . . . when he heard of the expected arrival of General Medows."[9]

This panic brought about an acute monetary crisis in Calcutta and was responsible for the following application for accommodation from the Chiefs of the 14 leading Agency Houses of Calcutta to Cornwallis on March 12, 1790[10]:—

Chiefs' proposals.

". . . We are convinced that it is fully within your Lordships' knowledge that the quantity of specie now in Circulation is inadequate to the current business of the Settlement and that the value of Money has in consequence risen, as that of the Company's Paper has sunk in so great a degree that whereas money might have been borrowed to any Amount by persons of adequate Credit at 10 per cent. on personal Security only so lately as November last, and at 8 or 9 per cent. when a Security of Company's Paper was given, it cannot now be borrowed on any Security at legal Interest—and whereas Company's Paper then bore a Premium, the same Paper now sells, when it can at all be sold, at discount of 10 to 12 per cent.

"We propose then—

"1st That your Lordship may direct

9 *The Cornwallis Correspondence* by Charles Ross (London, 1859), Vol. I, p. 477.

10 O. C. 20, March 17, 1790.

Promissory Notes of Government to be prepared for the Sum of Sicca Rupees one thousand each and to the Amount of Ten Lacs of Sicca Rupees in the whole, expressing an engagement to receive them in all payments to Government.

Issue of Currency Notes for 10 lacs

"2nd That on such Notes being prepared, offer to Individuals a loan for Six Months to the amount in the whole of Ten Lacs of Sicca Rupees, but redeemable at the pleasure of the Borrower, on a deposit of Company's Paper—such Loans to bear Interest at eight per Cent. and to be made in the Notes above mentioned.

against Company's Paper for 6 months at 8 per cent.

"3rd That the impending payments to Government from individuals be suspended until such Notes be prepared and the Loan tendered.

Temporary moratorium.

"4th That we do engage with Government and with each of them to receive such Notes in all payments among ourselves and as often as they are returned to Government, to receive them back in the discharge of Certificates and other Issues.

Recognition of Notes.

"5th That as often as such Loans are paid off, the Notes unreturned in such payments, if

Securities for loans to cover Notes.

made in Cash, Notes to an equal amount from the first which shall be returned to Government in other payments be withdrawn from Circulation but that new Loans for the unexpired terms of the Six Months be tendered, and the Notes returned into circulation as such are taken up.

Limits assigned to different Banks.

"6th That Government engage for the same period to receive in their payments the Notes of the General Bank and of either or both of the private Banks, provided either or both of the private Banks make a deposit as Security, as far as Five Lacs from the General Bank and to the amount of the Deposit from either of the other Banks not exceeding that Sum, returning immediately to the Banks any Surplus when the receipt of their Notes respectively exceed these Sums.[1]

Convertibility of Notes.

"7th That the Banks do pledge themselves to Government and the Public—to tender Gold and Silver Specie in the payment of their Notes nearly in the proportions

[1] The meaning is not quite clear. It seems that the General Bank was to be permitted to issue notes for an unlimited amount against its deposit of Rs. 5 lacs with the Government. But the Bengal Bank and the Bank of Hindostan were to be allowed to issue Notes not exceeding their respective deposits with the Government.

they hold of each on the morning of each day. . . ."

Two main proposals.

These seven clauses amplified only two proposals: (a) issue of inconvertible Currency notes against Company's Paper; (b) recognition of Bank notes as legal tender. The latter question could not be reopened as the matter had already been decided by the Court of Directors. The former question had been examined by Sir James Steuart, who had written as follows[2]:—

Inconvertible Notes condemned by Sir James Steuart.

"A system of paper credit, similar to that established in the colonies of North America, where the paper is issued upon no other security than the bare promise of the colony to make it effectual, with an obligation to receive it in payment of their taxes; but without providing any fund to pay upon demand, either the capital contained in the note in specific coin, or even an interest corresponding to the sum during the delay of payment, is so defective a scheme, and so liable to great objections, particularly to that of gradually debasing the value of their money of account, that I never can recommend it to the imitation of any trading nation."

2 *Principles of Money*, p. 76.

Cornwallis also rejects the proposals because

Cornwallis also held the same view and gave the following reasons in his reply to the Chiefs of the Agency Houses, rejecting their proposals[3] :—

(a) notes would bear discount ;

1. "That the Notes would immediately bear a discount as there is no Plan to which the Holders could resort to exchange them into Specie, and it is incumbent to all Paper Currency that its full Value cannot be upheld longer than the Paper can be converted into Cash at the option of the Proprietors.

(b) be thrown out of circulation ;

2. "That as soon as the Notes shall bear a discount, Government would be under the Necessity of discontinuing the issue of them, excepting to those who might have bound themselves to receive them, . . . so that the Notes would remain an almost useless Balance in the Company's Treasury."

(c) would have to be inconvertible ; and

3. "That supposing Government should undertake to exchange the Notes for Specie, on presentation, the greater part of the Notes would in all Probability centre in the Treasury."

[3] O. C. 21, March 17, 1790.

4. That Government would experience great difficulty in paying to the army and making other payments in cash.

(d) would increase difficulty of army remittances.

The scarcity of loanable capital during the busy season is a periodic phenomenon in all agricultural countries including India. Provision has now been made for the issue of additional currency not against Government Paper but against (1) trade bills indorsed by the Imperial Bank of India[4] and against (2) sterling securities held in the Paper Currency Reserve.[5] The principles underlying these two measures are totally different from those proposed by the Chiefs of the Agency Houses. Moreover, the scarcity of loanable capital in 1790 was much severer than the seasonal stringency in the Calcutta Money Market brought about year after year by the transference of coins and notes to up country centres for moving the crops.[6]

Present-day provisions for additional currency to meet seasonal stringency.

For the War was on. The inhabitants

[4] Section 20 of Indian Paper Currency Act (Act X of 1923). The limit of fifty millions mentioned therein was raised to 120 millions by the amending Act in 1923 (Act XXXVI of 1923).

[5] Section 19 (4) of Indian Paper Currency Act (Act X of 1923). The limit of 850 millions mentioned therein has been raised to 1000 millions in 1925.

[6] For a treatment of this problem under present day conditions, see author's article on *"Seasonal Stringency in the Indian Money Market and the Remedy"* in the *Bankers' Magazine* for October, 1924.

of Calcutta rose to the height of the occasion and helped the Government as much as possible to achieve a speedy victory, for everyone was affected by the War.[7] The need for money was pressing, as a few week's delay might mean the breaking out of the south-western Monsoon on the Malabar Coast, delaying operations for months to come. "When General Medows was at the head of the Army in 1790 and only waited for pecuniary aid to make his first movement forward to meet the Enemy in the fields, he invited a select number of Gentlemen to meet him at the Government Garden House to state to them the situation of the Funds of Government; & the absolute necessity of an extraordinary exertion of individual credit to raise Twenty Lacks of Rupees for Bills on Bengal; Josias Du Pre Pocher & Thomas Redhead as Proprietors of the Hindostan Bank subscribed 6,43,042 . . . Current Rupees and interested their Friends in the subscription to the amount of 3,56,927 . . making together the sum of 9,99,969 . . . Curt. Rups. as will appear by the Bills presented by the Hindostan Bank for acceptance & pay-

General Medows appeals for funds for financing the War.

Banks' liberal support.

[7] See the address presented to Cornwallis on the eve of his departure to Madras for conducting the campaign in person [*Calcutta Gazette*, December 9, 1790].

ment."[8] The amount of subscription by the other Banks is not known, but they must have responded as generously as the Bank of Hindostan to the Government's appeal for help. Some time in May, 1790 and before the bills in question became due, Cornwallis called for an extension of the due date, if the funds of the Government required it. All the holders of the bills, including the Bank of Hindostan, agreed to accommodate the Government.[9]

Pooling of resources in the *mofussil*.

The need for funds to prosecute the War with became more and more pressing. As ill luck would have it, there was an almost total failure of crops in Southern India. The entire cost of the campaign had therefore to be met from Bengal. The district treasuries[10] were ordered "to send down every available rupee to Calcutta; a loan, somewhat on the principle of a Tudor benevolence, was

8 See the letter of the Bank of Hindostan dated November 28, 1791 to Cornwallis quoted in O. C. 17, December 2, 1791 and P P. 3888 to 3891, December, 1791.

9 O. C. 17, December 2, 1791; P. P. 3888-3891, December, 1791.

10 Hunter has described these as district Government banks and with perfect truth. The work of the treasury was then very complicated and resembled banking in the *mofussil* at the time which concerned itself mainly with the remittance of funds. "The Board of Trade forwarded an estimate of the drafts to be drawn upon the district bank during the ensuing six months, and the Board of Revenue named the treasury to which the surplus should be remitted. The Collector sent a statement on the last day of each month, exhibiting the cash balances, and mentioning by what remittances he purposed to dispose them. The amount and date of the remittances were......left to the Collector's discretion."

obtained from the Nawab;[1] and on the 15th of November the Accountant General directed all disbursements to be suspended. Ten days later came another letter still more urgent for remittances; during the winter the demand was frequently repeated, and the provincial Government banks throughout Bengal remained closed. . . . The Company was a great manufacturer and the immediate result of these measures was to throw thousands of families out of work in mid-winter. The sudden drain upon the specie of the province, moreover, carried off the only currency in which the cultivators could pay their rent or the artisans receive payment for the goods they had delivered to the commercial resident. Starving crowds besieged the Treasury."[2] . . .

War loan.

Even these extraordinary measures proved inadequate. On November 25, 1790, the Government was obliged to raise money by the issue of Treasury Bills, declaring them as legal tender for payments to the Government. This is believed to be the first occasion on which such instruments were issued. The form and procedure were slightly different from those of modern instruments, but the underlying principle is the same in both cases, *viz.*, anticipation of public revenue. The

[1] These are the words used by Hunter to describe the incident reported in the *Calcutta Gazette* of November 18, 1790.

[2] Hunter's *Annals of Rural Bengal*, 7th edition, p. 289.

following notice published in the *Calcutta Gazette* of November 25, 1790 describes the issue in detail:—

"FORT WILLIAM.

Public Department, November 24, 1790.

Public notification.

It having appeared from an investigation of the Amount which may be expected to be realised at the Presidency before the 15th of March next, that it will afford the means of reimbursing on or before that period Loans to a considerable Amount, and the Governor General in Council being desirous of carrying the supplies of War for prosecuting the War upon the Coast to the utmost extent, that the expected resources of Government will admit, and in particular that the Consignments of Treasure by the intended embarkation, should by this short anticipation of the expected produce of the resources of the Government, be augmented as much as can be accomplished, by a temporary aid afforded by Individuals;[3] the Public are hereby informed, that Acknowledgments will be given for the issue of Promissory Notes, payable with interest at and after the Rate of Twelve per Cent. per Annum on or before the 15th March next, at the option of Government, on giving at least

3 The campaign could not be deferred till the end of April for that was the time for the outbreak of the monsoon.

ten days notice of their intention to discharge such Acknowledgment; and in order to render them more adapted to the peculiar exigencies of the Mercantile part of the Settlement at this season of the year,[4] these Acknowledgments will be taken as Cash, in discharge of any Demand which either of the Officers of the Government may have upon the Proprietors of such Acknowledgments, during the period for which they may be granted. . . ."

Provision for acceptance in payment of Government dues.

"The Promissory Notes to be granted by the Secretary to the Government, in lieu of these Acknowledgments" were also to contain the following clause:—

Also for Promissory Notes.

. . . "And the Governor General in Council does also hereby promise, for and on behalf of the Honourable the United Company of Merchants of England trading to the East Indies, that this Promissory Note shall be taken as Cash, for the amount of the Principal and the Interest which may have accrued thereon to and, at any time between

[4] As already stated the Company's ships generally started from England at the beginning of every year, reaching Bengal about July or August. They sailed at the end of that year or the beginning of the next. The seasonal trade was therefore at its highest in November/December in Calcutta. Unfortunately, the Government also wanted the money at the same time. Hence the necessity of declaring the Treasury Bills as legal tender for Government dues.

the date thereof, and the Fifteenth March, 1791, in discharge of any Demand which either of the Officers of Government, may have in behalf and on account of the Honourable the United Company of Merchants of England trading to the East Indies, on any person who may be Proprietor holder of this Promissory Note." . . .

Dissolution of the General Bank

The constant raising of money by the Government for the prosecution of war was having its usual effect on the Calcutta Money Market. The time for the dissolution of the General Bank of India laid down in the tenth Article of the Agreement was fast drawing near. It was felt however that it would be improper to abolish such a useful institution, which had, more than any other bank, augmented the resources of the Calcutta Money Market. Accordingly a meeting of the Proprietors of the Bank was held on January 29, 1791 to consider the question. The following report of the meeting is given in the *Calcutta Gazette* of February 3, 1791 :—

postponed till March 31, 1791

"The proprietory meeting of the General Bank on Saturday, convened in consequence of a publick Advertisement, at the requisition of nine Proprietors, was very full; and Robert Graham, Esq., being voted into the Chair, the reasons for submitting to consideration the temporary extension for

transacting the publick business of the Bank (which was the object of the Meeting) were stated in writing by a Proprietor, and were, briefly to the following effect:—'In the first place, to afford a little

to allow (a) realisation of depreciated securities

more time for the liquidation of loans on collateral security, the realisation of which, it might be reasonably expected, would be much facilitated by the success of our arms on the Coast, which could not fail to have a sensible, and probably rapid influence, in lowering the discount on Company's Paper:—Secondly, that previous to

(b) and establishment of new Bank.

the total extinction of the present institution, it became extremely desirable to have, if possible, the proposed New Bank established, a measure which though in great forwardness, could not be effected all at once, and which will be much retarded, if the old one ceased to continue its operations as proposed;—that the continuation could be attended with no injury, but much eventual saving of expence (*sic*), and accommodation, if the New Bank took place, as it certainly would have done already, had it not been deprived by severe indisposition of the zealous support of two of its warmest and most able advocates, but to which nevertheless, all the commercial interest of the settlement looked up, as the only barrier against the extortion too prevalent at

this period, and unfortunately, not exclusively practised by native usurers.'

"After the foregoing statement had been read by the Secretary, the question was put, that 'the current business of the Bank should be continued till the 31st of March next' and carried by a Majority of more than six to one."

Dividends to shareholders of the General Bank.

As can be anticipated, the stringency in the Money Market resulting from the War prevented the establishment of the New Bank in spite "of the zealous support" of "its warmest and most able advocates." The first dividend of 25 per cent. was paid to the shareholders on April 25, 1791 within a month of the voluntary liquidation on March 31, 1791.[5] Further dividends continued to be paid from time to time, the fifth dividend of 4 per cent. being announced in the *Calcutta Gazette* of January 10, 1793. On February 28 of the same year, holders were requested to tender all notes for payment. This was followed by another notice on April 11, inviting all persons who had any demands against the General Bank to produce papers in support of their claim. The last mention of the Bank in the contem-

[5] *Calcutta Gazette*, April 21, 1791. Cooke however says that the Bank was reorganised in May, 1791 and the first meeting of proprietors was held on June 1, 1791. No evidence of this could be traced in contemporary records, although this account has been repeated by Symes Scutt.

porary records is to be found in the *Calcutta Gazette* of August 15, 1793 calling a meeting of the proprietors on August 20.

British success in Mysore War.

In the mean time, the Mysore War was going on. Cornwallis arrived at Madras on December 12, 1790, and "his presence in the scene of action was considered by our Allies as a pledge of our sincerity and of our confident hopes of success against the common enemy."[6] Bangalore was invested on January 5, 1791. On the 21st March, the fort fell with considerable loss on Tippoo's side. "The strong fortresses of Durwar (Dharwar) and Gopaul (Kopal) had long been invested and besieged by the Marattas and the Nizam, and with so little prospect of success that it had been more than once under the consideration of the Courts of Poona and Hyderabad whether they should not convert these sieges into blockades to set their armies at liberty for more active operations. But the news of the fall of Bangalore, which seemed to have been unexpected by the garrisons of these places, so effectually intimidated them, that . . . they agreed to surrender. Large magazines of military stores, which had been amassed in those places at a vast expense by Tippoo, fell into the hands of the captors."[7]

[6] Minute of Cornwallis dated November 6, 1790.

[7] Letter addressed by Cornwallis to the Court of Directors dated Camp near Bangalore, September 7, 1791.

But the struggle was not so easy at other places. Tippoo was giving battle to the Allied Armies at every fort besieged by them.

British reverses.

His exertion met with partial success at Coimbatore. The post had not been considered tenable and ordered to be evacuated.[8] But Lieutenant Chalmers,[9] who was in command, after removing everything valuable, thought he might be able to hold it, although his force and ammunitions were altogether inadequate. Relief came from Major Cuppage on August 11, 1791, but the garrison even when reinforced was vastly outnumbered by the besieging army. Further attempts to relieve the place failed and Lieutenant Chalmers was compelled to surrender on November 3, 1791.

The news of this surrender caused a financial panic in Calcutta. There was a run on the Bengal Bank and the Bank of Hindostan. Within eight days (from November 20 to November 27, 1791), the Bengal Bank paid out more than eight lacs of Sicca Rupees and had to suspend payment on November 28. The Bank of Hindostan was also in considerable difficulties and had to apply for Government assistance.

Financial panic in Calcutta.

8 Ross's *Cornwallis Correspondence* (London, 1859) Vol. II, p. 74.

9 Afterwards Major General Sir John Chalmers, K.C.B., who died on March 31, 1819.

This was the climax to the serious situation which had been developing in the Calcutta Money Market for some time past. Credit had been "frozen" and people had been experiencing great difficulties on account of scarcity of the circulating medium. But, as often happens in such cases, people could not find out the true reason and blamed the usury of the native bankers and the hoarding habit of anti-social people, which were stated to have depleted currency to a considerable extent.[10] As early as August, 1791, the Bengal Bank had to arrange for cash for an advance against Spanish dollars by having the dollars minted into Sicca Rupees. The letter addressed by the Bank to the Secretary of the Public Department of the Government in this connection shows clearly the extreme scarcity of circulating medium, and is therefore quoted below[1]:—

Events leading to the crisis.

"If you should be of opinion that upwards of two Lacs of Rupees of Current Coin of the Settlement will be properly introduced at this moment of Scarcity of Silver, We beg you will do us the favor to submit this address to the consideration of Government.

Bengal Bank offers to send Spanish Dollars for being minted into Sicca Rupees.

[10] See *post*.

[1] O. C. 15, August 5, 1791; P. P. 2757-60, August, 1791.

"More than One Lac of Dollars are offered us, upon the Terms of an Advance, which We can undertake to make and send the whole to the Mint to be Coined into Sicca Rupees, provided Government would agree to advance us from their Treasury, in seven days, Fifty Thousand Siccas,[2] either in Gold or Silver, in case the Mint Master should from any other Silver that may be thrown into the Mint for Coinage, be prevented from striking off that amount of Rupees from our Dollars, and that they will in fifteen days advance us an additional Fifty Thousand, in twenty-five days another Fifty Thousand, and the Ballance (*sic*) that we may be entitled to, from the production of the Dollars at the Mint, to be paid us in a month.

The urgency of the measure.

"The Dollars shall be immediately ordered to the Mint, if Government will signify their readiness to give the assistance that will only be required in case the Mint Master should not be able to strike off the Rupees in that time in which it is necessary We should be certain of receiving them, ere We can undertake to make an advance upon the Dollars, and if We do not, We have great reason to believe the Dollars will be exported

2 It was in 1893 that an Act was passed closing the mints to the coinage of rupees on private account in accordance with the recommendation of the Herschell Committee on Indian Currency of 1892.

forthwith and the export of so much silver will be a great loss to the Settlement just at this period."

Misappropriation by Bengal Bank.

The Government agreed to this proposal with alacrity, but even these extraordinary measures for raising money could only stave off the evil day and not avert the crisis. The Bengal Bank before closing its doors took the most reprehensible step of arranging for coinage on its own account on November 20, the first day of the run, of Spanish Dollars aggregating 47,318 which had been entrusted to it as agents by Mr. Thomas Willing Francis. The result was that the Mint Master was restrained by an attorney's letter from delivering the Coined Sicca Rupees to the Bengal Bank.[3]

Suspension of payment.

Even extreme measures like these proved inadequate to meet the crisis. The Bank failed on November 28, and was obliged to solicit Government assistance for reopening its doors. Its application dated November 28, 1791, is reproduced below[4]:—

"An uncommon and unexpected run that has been made against our Banking House for some time past, which being quite unforeseen by us, could not be provided against, has laid us under the Disagreeable necessity of

[3] O. C. 21, December 2, 1791; P.P. 3901-2, December, 1791.
[4] O. C. 16, December 2, 1791; P.P. 3886-3887, December, 1791.

stopping our Business until we can obtain a sufficient sum to Carry on our Circulation.

"The Demands made upon us and paid in Cash have amounted within these last Eight Days to upwards of Eight Lacs of Sicca Rupees and finding them still increasing we thought it advisable to request a meeting of a few respectable Friends on Saturday last by whose advice we are now induced to Sollicit (*sic*) the aid of Government by a loan of Specie. Had it been possible in these times of general Distrust to have procured Loans of Specie from Individuals, Or to have converted property into money by Sale on any terms short of absolute ruin We should not have troubled Government on this Occasion. But in the present situation of affairs We see no prospect of Supporting our Credit by any other means than that which we now solicit.

Gravity of the crisis.

"The sum which would enable us to maintain our Credit is five Lacs of Sicca Rupees in Loan for three months for which we will pay interest at the rate of twelve per Ct. p. annum and deposit Company's Paper to the full amount as a Security.

Prayer for loan of Rs. 5 lacs for 3 months at 12%.

"Under circumstances so disastrous to private Credit We Humbly Hope where no possible risk can accrue that Government will

have the goodness to comply with our request granting the Solicited Support."

Hindostan Bank's application.

A similar application was preferred by the Bank of Hindostan on the same day which ran as follows[5]:—

Extent of the run.

"The present moment of embarrassment and difficulty to Banking Houses of extensive Money transactions, the effect of a very confined circulation of Specie from monopoly, combination or some other cause,[6] has put a stop, for the present, to the business of the Bengal Bank; and brought down upon the Bank of Hindostan such an extraordinary run of demand for *ready money*, that it is by no means certain, that ample, real property in the Securities of Government, added to the most powerful individual exertions of Constituents and Friends, will be sufficient to stem the torrent of difficulty to be expected from an event, and which no human foresight could provide against.

Bank's services to the community.

"With a view to raise sufficient specie to answer every demand which can be brought against the Bank of Hindostan—to do justice to the decided confidence

5 O. C. 17, December 2, 1791; P.P. 3888-3891, December 1791.

6 The real reason for the monetary crisis was, as has been stated already, the loss of confidence in public mind and the "freezing up" of credit in consequence.

& exertions of Friends at the hour of almost universal want of confidence and to support the Capital, Credit & reputation of an Institution formed upon a system, not to be shook or affected by common accidents in the general intercourse of Commercial communication, in this, or any other Country,[7] & above all to check the oppressive consequences of the undue influence of Men who hoard up specie & thereby depreciate the value of the circulating Paper of Govt., ruin Concerns of Trade entered upon fair mercantile grounds, by establishing an unnatural Discount on Company's Paper—exacting unbounded Premiums for Loans of temporary accommodation[8] (too often required when the circulation of specie is not regular and perfect)[9] we are induced to hope that

7 This of course is the Bank's own opinion about itself.

8 To maintain the fiction of legal rate of interest, similar expedients were adopted in other countries in times of stringency. Tooke in his *History of Prices* describes the state of affairs in London in 1797 as follows :—"Mercantile bills excepting such as come within Bank time and regulations, were hardly negotiable at all, or were subject to heavy commissions by way of evading the operations of the Usury Laws." He gives other instances and observes, "the operation of the Usury Laws may be distinctly traced in a great aggravation of the distress among merchants and bankers. . . . . Numbers who would gladly have given an advanced rate of 8 or 10 per cent. . . . were obliged to sell stock and goods at a loss of 20 or 30 per cent. for cash as compared with the price for time."

9 Thus the Bank of Hindostan also committed the same error as others in supposing that it was the scarcity of specie in circulation which raised the rate of interest.

Prayer for loan of Rs. 1½ lacs for 2 months @12%.

Government will grant us an accommodating loan of One Lack and fifty thousand Sicca Rupees for 2 Months @ 12 p. cent. p. annum on Bond upon our depositing Company's Paper as a collateral security for the amount. And in their deliberations upon the subject of our claim for relief we trust they will consider how far the ruin of Banking and other establishments founded upon Capital & conducted by Rules safe and secure in the current of common events will operate to affect public Credit. . ."

Assistance to private banks

The applications of the two Banks were considered by the Board on the same day as received. The minutes of the proceedings contain an elaborate discussion on the relation between the Government and private Banks and lay down certain economic principles, some of which at any rate are quite sound.[10] The first difficulty facing the Board was the positive order of the Court of Directors forbidding any connection whatsoever with private Banks.

forbidden by the Court of Directors.

"We are perfectly aware," they observed, "that the Orders of the Court of Directors enjoining us neither to engage in any pecuniary transactions with the Private Banks erected in this Country, nor to afford them our countenance, are sufficiently

10 O. C. 18, December 2, 1791; P.P. 3891-3899 December, 1791.

explicit. We are, also, far from meaning to contend for the utility of such Institutions in a Society circumstanced as this is—that being a point, at the least, very doubtful.[1] The question at present before us, however, would not appear to be, whether those Establishments shall, or ought to, be encouraged, or whether on a general principle of reciprocal convenience, we shall employ their agency in money negotiations; but whether the various Interests involved at this particular period in their impending state (amongst which that of the Company may possibly not be the least at stake) shall be exposed to ruin or material injury, which, perhaps, it is in the power of Government without risk or embarrassment, to alleviate, if not totally avert the evil.

But larger issues were involved.

"If this distinction be fairly assumed, it will follow that the prohibition of the Court of Directors is not applicable to the peculiar case under our immediate Consideration, the determination upon which it will, consequently, be proper to ground, not on any general theories of Finance, but on a deliberate view of the effects likely to be produced in the

The effect of failure of the two banks.

[1] This shows that the indigenous bankers and the Agency Houses in those days were able to meet the banking needs of the community, whatever their rivals, the European bankers, might say.

present delicate conjuncture not only on individual, but on public, credit by the Sudden destruction of two Houses which to say nothing of the deposits of private property in their hands, have, at this moment, notes in circulation to the amount at least, of Eleven Lacks of Rupees. . . ."

The Board then proceeded to examine the effect of the failure of the two Banks on Government Securities:—

Private and public securities.

"Aware as we are that in proportion as private Securities become hazardous, those of a public nature must rise in value,[2] we should not be justifiable were we to grant any assistance to the Banks that was calculated to counteract so desirable an effect. But a compliance with the applications before us would, by no means have such a tendency.

Government intervention.

It would only serve to protect the property of the persons soliciting relief from legal devastation, and by giving them time to turn it to the best account, enable them, perhaps, in due season, to render ample and equal justice to their numerous Creditors.

2 This is not correct. If private Securities become hazardous, the money rate rises. The price of gilt-edged securities bearing a fixed rate of interest proportionately falls. The correct position is stated by the Board in a later portion of their minute, where they show the depreciation of Government Securities to be the inevitable consequence of the failure of the two banks.

It is not, probably in the power of Government any more than it is in their inclination to establish the Credit of either Bank. The present occurrence, co-operating with others of a similar kind, has so much shaken the confidence of people in general in private Securities of almost every description that a long period must necessarily elapse before Self-Constituted Banks will be able (if ever they should be able) to issue their Notes again. The danger of trusting such associations (whatever assistance temporary considerations may induce us to afford them on the present occasion) must always continue; while the Public will be aware that it may not always be either politically expedient, or convenient for Government to administer the same relief. . . ."

1st reason for assistance: maintenance of value of Government Paper.

The Board next proceeded to state three reasons for granting the accommodation prayed for by the Banks. The first was the indispensable necessity of maintaining the value of Government Securities. "The most weighty of these, [reasons] and indeed, the one upon which all the rest materially hinge," they observed, "is suggested by the immense importance of which it is to the Company, in the present posture of affairs, that their Paper should not only bear as high a circulating value as possible, but that it should be considered as substantial

security by all those who have any dealings with Government. . . ."[3]

The Board disavowed at the very beginning of the minute any intention to air their views on "any general theories of Finance," but the temptation seems to have been too strong to be resisted. They wanted to prove conclusively that the rejection of the applications before them would tend to depreciate Government securities, by stating three separate reasons :—

Rejection of applications will depreciate Government Securities owing to

"In the first place . . . it may be observed that, as the discount is always materially influenced by the quantity of Cash in Circulation (rising when that decreases, and falls when it increases) it follows that a sudden diminution, or annihilation, of the Current specie to the amount of the notes

(a) extinction of bank notes

[3] This is explained further as follows :— * * "Without laying any stress upon the considerations due to those persons who receive a large proportion of their Salaries in that Paper, it is abundantly obvious that whatever conduces to lower its value must necessarily occasion a proportionate augmentation of Public Expenses; the Discount of all Certificates or Promissory Notes issued in payments to Contractors and Agents either expressly and immediately or otherwise ultimately, falling upon the Company." According to the Regulation dated May 27, 1789, the Company paid all salaries or fixed disbursements over £1,200 a year, half in paper, half in cash. "Frequently, indeed, there was nothing in the treasury except paper, with which to pay the officials; and an old newspaper announces as a great matter that the Calcutta employés would receive a month's pay in silver." See Hunter's *Annals of Rural Bengal*, 7th edition, p. 293.

issued by both Banks and which in most mercantile transactions have been usually considered as Cash, would by enhancing the value of the remaining actual specie, enable the money-holders not only to raise the nominal Discount on Paper to an enormous degree, but in many instances, to fix their own price upon it. . . ."

—an erroneous doctrine—

The Board were simply repeating the erroneous doctrine of John Locke and other seventeenth century economists that a reduction in specie causes dearness of money. As is now well-known, it was the loss of confidence in public mind which caused a disturbance to credit and therefore a scarcity of loanable capital.

(b) forced sale

The second reason stated by the Board for proving that the rejection of the loan applications of the Banks would depreciate Government securities is quite sound. For they observed that the reduction in prices of Government paper "would be still more certainly as well as more instantaneously, produced, by the Proprietors of the Banks being reduced to the necessity of immediately selling, for the satisfaction of their importunate Creditors, the Paper which they have offered to deposit with us: since it being a fact within the knowledge of most people that it is seldom practicable even on the security of Company's Paper to

procure a loan from the monied natives of this town excepting on the most usurious terms, it is but too probable, under the pressure of the occasion, that the property in question, if negociable at all would be only so upon such conditions as these Directors of the market might think proper to impose.[4] . . . It may be urged, indeed, that the prudence or moderation, of the Creditors would probably restrain them from reducing the Proprietors to the necessity of throwing all their Government Securities at once into the market. Yet as this sort of forbearance cannot be certainly reckoned upon, it would not be right, perhaps in the present instance, to lay any considerable stress upon it."

(c) destruction of credit facilities.

The third line of argument of the Board for showing that the extinction of the Banks would lower the value of Government paper was as follows:—"It may next be observed that the specie occasionally required in mercantile transactions of any magnitude being for the most part, raised either by the transfer or deposit of Company's Paper, . . . it becomes the more advisable, . . . to uphold its credit, and to facilitate its conversion into money.

[4] This shows that the market for Government securities in Calcutta was extremely limited at the time, there being only a few dealers, who could easily combine among themselves and dictate their own terms.

The same consideration suggests the disadvantage which would be likely to arise . . . from the sudden extinction of that accommodation which the commercial part of the Settlement have been used to derive from the notes of the Bank and without attempting a minute or close examination of the point, it is, we think, fair to conclude that the deprivation of this kind could hardly fail . . . to diminish the means of purchasing . . . . Indeed it may be allowed us to observe in this place that the Banks by granting loans for short periods on the collateral security of the Company's Paper at the legal interest of the Country have in the present account of things so far proved useful institutions since these sorts of accommodation by opposing a cheque (*sic*) to the extortion of the native usurers has undoubtedly conduced to keep up the value of the paper."

2nd reason for assistance: failure of banks means failure of Government contractors.

After adducing these three separate arguments for proving that the failure of the Banks would result in the depreciation of Government securities, the Board went on to consider other effects of the failure. "In deliberating upon the present question," they observed, "it is by no means immaterial to consider how far individual or private property will be likely to be affected by the total and immediate failure of the Banks, since this is

a point in which the Company are perhaps very essentially interested. There can, indeed, be but little doubt that the money of the public contractors as well as their securities have extensive dealings with these establishments. Some have probably lodged considerable sums with them; others have, no less probably received large payments in their notes. At all events such is the reciprocal dependence, such the indeterminable connection of mercantile party in this Settlement . . . that there is no saying whom the influence of failure like that of the Banks would not reach. It may be sufficient, therefore, to observe on this topic that as any serious derangement in the affairs of the men entered in considerable engagements with the Company, would, to say the least, necessarily render the due performance of such engagements extremely precarious, and as the evil which we are solicited to avert would undoubtedly, more or less, involve persons of this description, it is manifest that Government cannot be indifferent to the event. . . ."

The third effect of the failure of the Banks, in the opinion of the Board, would be to shake the faith of the holders of Government securities and bring about political complications. ". . . The proprietors of the Banks have given us to understand," they observed, "that they possessed

3rd reason for assistance: protection to holders of Government securities.

Government Security to the amount at least of the loans which they solicit. We will not contend that to suffer the property of men holding public security to a larger amount than, if readily convertible into specie, is necessary for the satisfaction of the immediate demand of their creditors to be seized, and precipitately sold on the most ruinous terms, would, strictly speaking, be any impeachment of the Company's credit as a commercial body but we confess it appears to us that to refuse under the peculiar circumstances of the case the temporary relief required, would neither consist with the honour of an equitable and protective Government, nor conduce to the advancement of its political interests. . . ."

The Board then unanimously passed the following resolutions :—

Applications of the Banks granted.

"Agreed, therefore, that an order on the treasury be issued for an advance upon loan to the proprietors of the Bengal Bank to the extent of Five Lacs of Sicca Rupees to be repaid in three months with interest at the rate of 12% per annum on a deposit being made of Company's Paper for the amount, and 25% in addition thereto.

"That an order on the treasury be issued for an advance upon loan to the proprietors of the Hindostan Bank, to the extent of One Lac and a half of Sicca Rupees to be repaid in two months, with interest at twelve per cent.

per annum, on a deposit being made of Company's Paper to the amount required upon the other loan."

These orders were communicated to the two Banks. The Bank of Hindostan deposited the Company's Paper required for its loan, but the affairs of the Bengal Bank were so hopelessly embarrassed that they could not take advantage of this liberal offer of support from the Government. The following letter was addressed by Mr. Benjamin Mee on behalf of the Bengal Bank on November 30, 1791 to the Government[5]:—

Bengal Bank unable to avail itself of Government offer of help.

"Having been favoured with your Letter communicating to me the ready acquiescence of Government to my request on the Part of the Proprietors of the Bengal Bank, I beg leave to acknowledge my obligations to the Hon'ble Board for their liberal offer of support, which I am sorry to say my Present Situation will not admit me to accept."

The Board in their letter dated January 25, 1792 addressed to the Court of Directors[6] justified their action by quoting their elaborate minute on the subject.

Error in official index.

[5] O. C. 19, December 2, 1791; P.P. 3899-3900, December, 1791.
[6] Copy of India Office Records, Vol. 50, pp. 1—25; *Miscellania* paragraphs 60—65.

Curiously enough, the official index to this letter runs as follows :—

"Reporting that a request from the Bank of Hindostan for a loan has been complied with, while a similar application from the Bank of Bengal was rejected!"

Hindostan Bank pays off loan before due date.

As events proved, the Board were right in disregarding the instructions of the Court of Directors and helping the Bank of Hindostan through the crisis. Even before the expiry of the term of the advance, the Bank was in a position to pay off the loan. It applied for permission to repay the advance in about a month's time in the beginning of January, 1792. The necessary permission was obtained on January 9, and the debt paid off the very next day. The Bank of Hindostan thanked the Government for their timely help in their letter dated January 10, 1792[7] which was concluded as follows :—

". . . our application for the assistance of Government, at a moment of almost universal alarm and distrust (the effect of recent failures of Houses of extensive business and great connexion in this City) was founded upon principles of security to the Community, in support of public and private Credit, and to cover the exertions of the Friends of the Bank without any views to avail ourselves of the

[7] O. C. 18, January 11, 1792; P.P. 123—125 January, 1792.

advantages which must inevitably result from such general embarrassment.

"With the most perfect sense of obligation to Government we hope that our conduct in this transaction will impress your Lordship with confidence in our intentions and secure to us future protection if it should ever be required." . . .

Happily, the Bank of Hindostan did not fall into a similar difficulty for many years.

Failure of Bengal Bank.

It was not till 1819 that there was a run on the Bank.[8] That crisis was successfully passed without assistance from the Government. But unfortunately the Bengal Bank could not survive the crisis of November, 1791. Mr. Jacob Rider, one of the proprietors of the Bank, was a partner of many other concerns in Calcutta. It is apparent that the book-keeping was not all that could be desired. The accounts were in such a mess that Mr. Rider had to return to Calcutta to make a settlement with the creditors.

Liquidation proceedings.

Accordingly, the following notice was published in the *Calcutta Gazette* of July 5, 1792:—

"Mr. Jacob Rider having returned to Calcutta with the view and in the hope of assisting the Trustees of the Bengal Bank in the clear adjustment of the Accounts of the

[8] Cooke's *Banking*, p. 201.

said Bank and the other concerns in which he has unfortunately been involved, and which the Trustees, deprived as they have been hitherto, of the assistance and information of all the partners, had not the means of effecting; he most earnestly intreats (*sic*) that the Creditors of every description, will immediately communicate to him in writing, to be left at the Bengal Bank Office, their several demands, the present state of them and how they have arisen. . . ." A Bengali and a Persian translation were also published at the same time.

Declaration of dividend.

A meeting of the creditors was held on March 24, 1793[8] but the declaration of dividend was postponed, as the costs of liquidation to be paid and therefore the amount available for distribution could not be settled by the Trustees. The "first dividend of Two Annas per each Rupee on the claims allowed by the Master" was announced in the *Calcutta Gazette* of October 3, 1793.

Hindostan Bank opens lottery in aid of Town Hall.

It may be presumed that the Bank of Hindostan continued to prosper with the extinction of both their rivals. It was announced in the *Calcutta Gazette* of October 11, 1792, that the Bank would receive applications for a lottery which "will commence drawing . . . on the

[8] *Calcutta Gazette*, March 21, 1793.

1st of February, 1793; the profits arising from which will be appropriated to the fund for building the Town Hall of Calcutta. The Prizes to be paid in Cash at the Bank of Hindostan, one month after the conclusion of the Drawing; deducting 10 per cent. Tickets will be ready for delivery, at the Bank of Hindostan on the 1st of November, 1792."

Lotteries in vogue even for erection of church.

It may appear strange that a public building like the Town Hall should be sought to be erected from the proceeds of a form of gambling like the lottery. But this was the most convenient method of raising money in those days. Many public streets of Calcutta were first constructed in this way. It was not thought improper to devote the proceeds of a lottery even to the erection of a church![9]

Bank of Calcutta.

But the Bank of Hindostan had not to wait long before another rival appeared in the field. On June 2, 1806, the Bank of Calcutta commenced business.[10] In the letter from the Secretary to the Government to Mr. J. W. Sherer, C.S., the first Secretary and Treasurer to the Bank dated February 27, 1806,[1] three

9 Setton-Karr's *Selections from the Calcutta Gazette*, Vol. I, p 7.

10 See p 5, footnote 8 *ante*.

1 This letter has disappeared from the Imperial Record Office. A summary is given in G. P. Symes Scutt's *History of the Bank of Bengal.*

reasons are given for the establishment of a provisional Bank prior to the establishment of a Chartered Bank on a permanent footing. The first advantage claimed was that of general utility to the public, "without incurring any risk and without the smallest inconvenience." It is apparent that the Bank of Hindostan was unable to cope with the demands of increasing trade and commerce. A Bank started under the auspices of the Government and managed with efficiency and integrity could possibly have no misgivings of failure.

Chaotic state of currency.

The second plea put forward for the establishment of the Bank is quoted below in full as it throws some light on the monetary condition of the time:—

"The merchants and others of this place will be accommodated with Loans in specie at a moderate rate of interest when specie may not be procurable in other quarters except at an enormous expense, and by allowing them to replace such Loans at any intermediate period at their own option, they will have an opportunity of replacing the money when it can be done with most convenience and advantage to themselves. At present they are exposed to the exactions of persons who make the purchase and sale of specie a matter of traffic; who purchase it up when it is abundant and bears no extraordinary value, and

then withhold it from circulation until the necessities of the merchants and others compel them to purchase it at any rate for remittances to the Provinces and other purposes, for which the local currency of Calcutta cannot be used.[2] The Bank will thus, it is expected, become the great organ for supplying specie, which it will furnish without expense to the party requiring it, and hopes may be entertained that in a short time it will supply the place of persons whose agency is far from being productive of convenience or advantage to the public. These individuals have an interest in causing sudden and violent fluctuations in the market, and in depreciating from time to time the value of the local currency, and it is obvious that this interest may lead them to pursue measures adverse to the general interests of the community. The sudden and violent fluctuations in the value of Treasury Bills have aggravated in a great degree the inconvenience and loss which the public have suffered from their depreciation. The proceedings of the Bank on the contrary will tend directly to equalize everything and will be regulated with the sole view to promote the general good. Specie will be paid into the Bank, when it is most abundant, in discharge

[2] Not only were different kinds of rupees in circulation in the different districts of Bengal but even in the same district different rupees were used for different commodities. See Prof. J. C. Sinha's *Economic Annals of Bengal*, Chapter III.

of temporary Loans, and will remain until called for, instead of falling into the hands of persons who would withhold it from circulation for interested purposes. It will be drawn from the Bank of course when there is again a demand for it for particular purposes, and the merchants, who may have immediate and urgent occasion for it, and who may at the same time possess the means of replacing it within a short period will be supplied with it, without incurring any expense instead of being forced to purchase it on extravagant terms. It happens not unfrequently that the Agents and others of this place, are compelled to give a high premium for specie, when they have reason to expect that, by delay of a few days only, they would be enabled to supply themselves without incurring any charge."

The third and the most important advantage claimed for the Bank was the introduction of Paper Currency.

Paper Currency.

It has been pointed out already that according to so high an authority as Sir James Steuart the only escape from the chaotic state of Bengal currency was by the establishment of Paper Currency, not directly by the Government but by a Bank started under the auspices of the Government. This view was subsequently confirmed by the failure of the plan advocated by Hastings and by the success of the plan proposed by the

General Bank and accepted by Cornwallis. With the extinction of the General Bank, Sir James Steuart's proposal remained in abeyance. Symes Scutt rightly points out that "the note-issue appears to have been the bait held out to subscribers by the Government—the original promoters of the Bank—who looked to the institution they advocated to save the currency situation of the times."[3]

Plan of the Bank.

A careful search has been made but to no purpose in the Imperial Record Office, Calcutta and in the records of the Imperial Bank of India for a copy of the "Plan" of the proposed Bank advertised in the *Calcutta Gazette* of April 10, 1806 as follows:—

"BANK OF CALCUTTA.

A few Copies of the Plan, printed with accuracy, in a neat Duodecimo Pamphlet from one of the original Circulated Copies for sale at the Harcaru Press, No. 183 Loll Bazar Street, Price two Rupees."

3 Symes Scutt's *History of the Bank of Bengal*, page 7. In the preface, he makes the following trenchant remarks:—"The Bank was started by Government with the primary object of improving the depreciated currency of 1806; this it achieved without difficulty. Thereafter, for half a century, the Bank laboured, under the supervision and with the assistance, often volunteered, of the Government, in creating and accustoming the people of the country to a Paper Currency. In 1862, the apple was ripening and Government plucked it, giving the Bank what were supposed by them to be compensating advantages, which have dwindled in value ever since." In the official Index Book for the Public Department Records, the Bank of Calcutta is referred to as the Government Bank throughout.

Symes Scutt has stated that there were about 67 clauses in the Plan, the most important of which have been set out by him for comparing the provisions of the permanent Bank with those of the temporary Bank. They are given below and show that the Plan of the General Bank was considerably improved upon:—

Chief provisions of the permanent Bank.

Period.

The Bank was to be incorporated for a term of 7 years.

Official control.

The Governor General in Council was to exercise control over the administration of the Bank.

Government guarantee.

The Government were to guarantee the responsibility of the Bank's establishment.

Qualification for Directors.

Directors, who might be "Armenians, Natives or others," had to hold at least one share of Rs. 10,000 each.

Election.

The power of electing a Director in the case of a vacancy lay with the Proprietors and not with the remaining Directors.

Official Directors.

The three Government Directors were to be certain officers, *viz.*, "A member of the Board of Revenue or Board of Trade, one of the Secretaries of the Government or the Accountant General or the Deputy Accountant General,

for the time being, or such other officers as Government may think proper to nominate."

The expenses of the establishment were limited to Sicca Rs. 30,000 per annum, an amount not to be exceeded except by sanction of the Proprietors in General Meeting.

Expenses.

Three Directors were to sign all Bank Notes.

Directors to sign Notes.

The Secretary and Treasurer, the Head Accountant and the Native Khazanchee were to be sworn to a faithful discharge of their trust before the Governor General in Council.

Swearing in to office.

The books of the Bank were to be balanced half-yearly on the 30th April and 30th October each year.

Half-yearly closing.

The Notes of the Bank were to be receivable at the General Treasury and other offices of the Presidency, but not at Provincial Treasuries without special sanction.

Notes to be legal tender for government dues in Calcutta.

Interest at a higher rate than 12 per cent. was not to be charged on loans.[4]

Maximum rate of interest.

[4] See p. 19, footnote *ante*.

Maximum lending.

The maximum amount which the Bank had power to lend to Government was Sicca Rs. 5 lacs and to any other party Sicca Rs. 1 lac.

Margin for advances.

Advances on goods were not to be for more than half their estimated value.

Penalty for overdrawing.

Any person drawing against his account when not in funds was to be fined 1 per cent. in addition to having his cheques rejected.

Cash percentage.

The Directors were to be prohibited from granting new loans or discounting bills when the cash balances fell below $\frac{1}{3}$rd of the notes and other claims outstanding payable on demand.

Estimated expenses.

In the letter from the Government to the newly appointed Secretary and Treasurer to the Bank quoted above, this Plan is followed by an estimate of expenses, which gives the salaries of bank employees of those times :—

ESTABLISHMENT.

Salary of the Secretary and Treasurer	Rs.	800
Rent of a House.	,,	300
Salary of a Book-keeper ...	,,	300
One Portuguese Writer ...	,,	100
Three Native Writers	,,	100
Khazanchee or Cash-keeper ...	,,	300

Podars	„	120
Shroffs and Purkeyers ...	„	80
Bengali Writers	„	80
Accountants	„	80
Coolies, Durwans, etc.	„	20
Peons	„	20
Contingencies (expenses of Notes, Stationery, Candles) ...	„	200
Total per mensem Sicca ...	„	2,500

Estimated profits.

This is followed by a statement of the estimated profits of the proposed Bank, which Symes Scutt has very properly reproduced in full in his book. It runs as follows :—

Two calculations

"The following calculations afford some ground for estimating the probable profits of the Bank.

"The first supposes a circulation of fifty lacs of Notes including Book Debts not bearing interest.

each at three different rates of interest :

"The second a circulation of thirty lacs only, which is the least that can be estimated. They both show the probable dividend, whether interest be at twelve, ten or eight per cent. They do not however include compound interest on short loans and on bills discounted (the interest on the latter being received in advance) which will of course enhance the dividend.

FIRST ESTIMATE

(1) On the basis of a circulation of fifty lacs—	The Bank circulating fifty lacs would have received a corresponding amount to lend out at interest ...	50,00,000
	Add Capital Stock of the Bank	50,00,000
		100,00,000
	Deduct Reserve of cash to meet outstanding demands, amounting to fifty lacs: one-third is about	16,66,000
		83,34,000
(a) at 12 p.c.	Interest at 12 per cent. per annum is ...	10,00,000
	Deduct charges ...	30,000
	First Annual Dividend on the whole capital of fifty lacs or 19·4 per cent. Sicca Rs.	9,70,000
(b) at 10 p.c.	Cash applicable to Loans as above ...	83,34,000
	Interest thereon at 10 per cent. per annum ...	8,33,400
	Deduct charges	30,000
	Second Dividend or 16·068 per cent. ...	8,03,400
(c) at 8 p.c.; and	Cash applicable to Loans as above ...	83,34,000
	Interest thereon at 8 per cent. per annum ...	6,66,720
	Deduct charges	30,000
	Third Dividend or 12·734 per cent. ...	6,36,720

In the 1st case, the dividend gives an interest on the Capital at the rate of	19·4 p. c.
In the 2nd case, the dividend gives an interest on the Capital at the rate of	16·068 p. c.
In the 3rd case, the dividend gives an interest on the Capital at the rate of	12·734 p. c.

Without calculating upon compound interest &c., &c.

SECOND ESTIMATE

(2) on the basis of a circulation of thirty lacs—	Circulation of thirty lacs, corresponding amount lent ...	30,00,000
Add Capital Stock of the Bank[5] ...	...	50,00,000
		80,00,000
Deduct Reserve of one-third of thirty lacs, outstanding	...	10,00,000
Cash applicable to loans ...	...	70,00,000
(a) at 12 p.c.	Interest thereon at 12 per cent. per annum	8,40,000
Deduct charges	...	30,000
First Dividend of 16·2 per cent. ...	...	8,10,000
(b) at 10 p.c.	Cash applicable to Loans as above ...	70,00,000
Interest thereon at 10 per cent. per annum ...		7,00,000
Deduct charges	...	30,000
Second Dividend of 13·4 per cent.	...	6,70,000
(c) at 8 p.c.	Cash applicable to Loans as above ...	70,00,000
Interest thereon at 8 per cent. per annum ...		5,60,000
Deduct charges	...	30,000
		5,30,000
In the first case the interest on the Capital would be	...	16·2 p. c.
In the second case the interest on the Capital would be	...	13·4 p. c.
In the third case the interest on the Capital would be ...	...	10·6 p. c.

[5] In the original, these words are erroneously put as "Capital of thirty lacs, corresponding amount lent."

The establishment of even the provisional Bank was beset with many legal difficulties. These are detailed in the following letter to the Court of Directors, dated April 14, 1806:—

Legal difficulties.

"Para 3. A question having since occurred whether the holding a share or shares in the Bank proposed to be established could be considered to come within the meaning of the Oath prescribed by section 3 Regulation III, 1793[6] and section 2 Regulation V, 1793[7] for the public servants, restricting them from being concerned in any commercial transactions; We considered it to be proper to refer this question for the opinion of the Advocate General.

Holding of shares by public servants

"Para 4. It was stated by the Advocate General that in his opinion the holding a share in the Bank is a Concern in Commercial transactions against the words of the Oath.

declared illegal;

6 Section 3, Regulation III of 1793 provides that every judge of a Zilla and City Court must take the following oath:—

"* * * * that I will not be concerned, directly or indirectly, in the purchase of any goods or commodities in the British dominions in Bengal for the purpose of remitting money to Europe, nor in any commercial transactions; and that I will not derive, directly or indirectly, any emoluments or advantages from any station, excepting such as the orders of Government do or may authorise me to receive. * * * *"

7 Section 2, Regulation V of 1793 provides the same oath for the judges of the Provincial Courts of Appeal.

"Para 5. By Article 16 of the provisional arrangement it is proposed that the Bank may receive Bills from Government on the Provincial Treasuries and may dispose of those Bills at a moderate rate of exchange for the accommodation of Merchants and others requiring remittance to the Provinces.

for discounting of bills

"Para 6. By Articles 51 and 52 of the permanent Plan advances are allowed to be made on the deposit of Goods and by Article 56, those goods may be sold for the satisfaction of the Debt incurred, in the event of its not being punctually discharged.

and advancing against goods

"Para 7. Transactions of the nature stated in those articles to be Commercial or trafficking in exchange, which is peculiarly Commercial, and it was stated by the Advocate General, that on these grounds alone Men have been holden to be subjects of the Bankruptcy Laws as Traders.

are commercial transactions.

"Para 8. In addition to the foregoing considerations the Act of Parliament of 1793 renders it illegal for any person employed or concerned in the collection of the Revenues or in the administration of justice in Bengal, Bihar and Orissa to carry on or to be concerned in or have any dealing in transactions by way of Traffic in Trade.

Purity of justice and administration

"Para 9. Under the opinion submitted by the Advocate General, We could not permit the Judicial and Revenue Officers of the Government to hold shares in the Bank. Those officers therefore who had become subscribers for shares in the Bank have been directed to withdraw their subscriptions.

secured by withdrawal of subscriptions by public servants.

"Para 10. It must be evident to your Honourable Court that holding a share in the Bank proposed to be established at Calcutta, involves none of those evil consequences the apprehension of which induced the Government to prescribe the Oath in question to those servants who are employed in the administration of justice in these Provinces.

Rules should not be enforced against Bank

"Para 11. We have already expressed our opinion[8] that the permanent establishment of the Bank at the Presidency will be of the most essential service to the Commercial Interest as well as to the financial operations of the Government. But the restrictions against a numerous body of the most independent and respectable part of the Community from holding shares in the Establishment will deprive the institutions of many of those advantages which appear to

to its detriment.

[8] See General Letter to the Court of Directors dated March 13, 1806, paras 13, 14 and 15, quoted on pp. 139-140, *post*.

us to be necessary to ensure a faithful administration of the affairs of the Bank and to obtain the general confidence of the public."

Temporary Bank formally approved.

The Governor General in Council was here simply repeating what had been urged by Sir James Steuart more than thirty years ago.[9] Notwithstanding the difficulties, the Supreme Council in their meeting on February 27, 1806 agreed with the Accountant General that there was no other means of rehabilitating depreciated Government Treasury Bills than the establishment of a Bank which would hold them and issue notes in exchange.[10]

Chief provisions.

Accordingly, pending the sanction of a permanent institution by the Court of Directors in London, it was decided[1] that "a provisional institution should be introduced. . . . The Capital of the Bank was to be subscribed for in a book to be opened at the Treasury. The shares (Sicca Rs. 10,000 each) were to be paid-up in four monthly instalments of Rs. 2,500 each, commencing on the 1st May, 1806. Three Government Directors were to be

[9] See pp. 53-54 *et seq.*, *ante.*

[10] O. C. 2, 3, 4 and 5, February 21, 1806. The original minutes have disappeared from the records but they have been carefully indexed in the Index Book for the Public Records of the Home Department.

[1] G. P. Symes Scutt's *History of the Bank of Bengal*, pp. 4 and 5.

appointed at once to conduct the affairs of the provisional Bank, and six Directors nominated by the subscribers were to be elected after the permanent institution had been sanctioned by the East India Company in London. A Treasurer and Secretary was to be appointed. Loans were to be made against security for a maximum period of two months, and which allowed a margin of at least ten per cent. The Directors were to be prohibited from advancing monies to any party who might previously have not punctually fulfilled his obligations to the Board. The rate to be charged for loans was never to exceed ten per cent. The limit of two months was to apply to loans to Government, who were never to be indebted to the Bank for a greater sum than Sicca Rs. 5,00,000. Bank notes were to be issued in sums not less than ten rupees, nor exceeding Rs. 10,000 in exchange for Government Treasury Bills: such notes to be receivable in payment of Government dues at the General Treasury, and at all the public treasuries and Offices of the Presidency. The Bank was to hold an equivalent amount of interest-bearing Treasury Bills against all its notes in circulation. The Bank was to have the first refusal of all bills Government were prepared to sell on any of the Revenue Treasuries in the Provinces. In cases of doubt as to the procedure they should adopt, the Directors were to refer to the Governor General in Council for

the necessary instructions for their guidance. In the event of the Hon'ble the Court of Directors refusing to sanction the proposed establishment, the Governor General engaged to return to the subscribers their capital and interest at 10 per cent., by four monthly instalments, commencing from 1st November, 1807."

Application for sanction and reasons.

In the meantime, the Governor General in Council applied for the necessary sanction to the Court of Directors in London in the following letter dated March 13, 1806 :—

Necessity for checking speculation in Government securities.

" . . . Para 13. We concur entirely in the opinion expressed by the Accountant General on the important subject, and are persuaded that the permanent establishment of the Bank, will be of the greatest service to the Commercial Interests of this Presidency, and that it will afford the most essential aid to all the financial operations of this Government by defeating the measures and combinations to which the numerous Individuals at this Presidency, who possess an extensive command of Money invariably resort, for the depreciation of public securities, whenever an opportunity is afforded to them for that purpose, by the presence of public or private distress.

"Para 14. We have no hesitation therefore in recommending the adoption of the Plan to

Imperative necessity for preventing depreciation of Treasury Bills.

your Hon'ble Court; and we confidently hope that you will approve of our having in the meantime given effect to the provisional Plan; the subscription of the required Capital of Fifty Lacks of Rupees, as well as the operation of this temporary Plan in its present limited scale, will, we are satisfied, afford us the most essential assistance at this critical period, towards effecting the restoration of the credit of the public securities and particularly the Treasury Bills, the forced circulation of which has lately subjected the community to a very heavy loss.

"Para 15. This Plan cannot be productive of any injurious consequences, and should the Plan of a permanent Bank not meet with the approbation of your Hon'ble Court, the capital which will now be subscribed under the provisional arrangement may be repaid, and the whole concern may be closed without difficulty and without detriment to any Public or private Interest."

Temporary arrangements do not bind Government.

To the position disclosed in this despatch, there is an interesting parallel in American banking history. The Banks organised in accordance with the provisions of the Acts of the various States opposed the establishment of National

Parallel from American Banking history.

Banks governed by Federal Laws. But the Civil War had drained the Treasury. United States Bonds were at a considerable discount and there was an urgent necessity for rehabilitating their value. The Banks in the Eastern and Middle States had bought considerable amounts of Bonds, but they were unable to use their credit in transactions with the Government, which also was in the same difficult position with regard to payments. Specie payments had therefore to be suspended both by the Government and the State Banks. The Secretary of the Treasury urged the adoption of a system of National Banks issuing Notes against United States Bonds in 1861. His scheme was passed in February, 1863 and amended from time to time to suit the changing circumstances. Thus it was the depreciation of public securities which laid the foundation of the National Banking system in America which is rightly regarded as the corner stone of American finance.

Appointment of Officers and Directors.

Pending receipt of the reply to his despatch from the Court of Directors in London, the Governor General appointed Mr. J. W. Sherer, C.S., as the Secretary and Treasurer and fixed the establishment at a total cost of Rs. 2,500 per mensem.[2] One month later, the following

[2] O. C. 2, 3, 4 and 5, February 27, 1806.

three Directors were nominated, *viz.*, T. Richard Becher, Member of the Board of Trade; Richard Waite Cox, Member of the Board of Revenue; and Henry St. George Tucker, the Accountant General, at whose instance the Bank came to the established.[3]

First meeting of Board of Directors.

These three Directors met before the election of other Directors by the shareholders, for the first time on April 9, 1806. The minutes[4] show that although they were all officials nominated by the Government, they carefully considered the proposals placed before them by the Government as the Directors of the Bank!

Withdrawal of subscriptions by Government officials.

The first item was the consideration "of a letter from the Government of India informing the Directors that the Civil Servants of the Hon'ble Company were prohibited from holding shares in the Bank. Such as had already become subscribers were to be notified to withdraw." The second item in the agenda was a proposal made by the Bank.

Procedure for issue of notes.

It was suggested to the Secret Department of the Government of India that the depreciated Treasury Bills should be withdrawn from circulation as soon as possible and Notes

[3] O. C. 2, March 27, 1806.

[4] G. P. Symes Scutt's *History of the Bank of Bengal*, pp. 11, 12.

issued in their place. Notes of denominations below Rs. 1,000 were to be payable in specie on demand and the signature of one Director instead of three as originally proposed was to suffice. The other two Directors agreed and it was arranged to have notes of Rs. 10, Rs. 50, Rs. 100, Rs. 250, Rs. 500, Rs. 1,000, Rs. 5,000 and Rs. 10,000 each under the above conditions. The Directors moved the Government for having the service of the Law Officer for legal questions and of sentinels for guarding the Bank. The Government agreed.[5] The Government share of capital, *viz.*, Sicca Rs. 10 lacs was paid in four instalments of Sicca Rs. 2,50,000 each.[6] The total capital was Sicca Rs. 50 lacs.[7]

Second meeting of the Board of Directors.

The second meeting of the Board of Directors was held on May 7, 1806. The minutes are reproduced below for they describe the banking methods in the early years of the nineteenth century.[8]

Lottery business

"1. Read the following letter from the Commissioner for the Management of the Calcutta Town Hall Lottery :—

5 O. C. 12 and 13, April 17, 1806.

6 O. C. 22, July 3, 1806; O. C. 27, May 22, 1806; O. C. 22, July 3, 1806 and O. C. 43, July 24, 1806.

7 Cooke's *Banking*, p. 95.

8 G. P. Symes Scutt's *History of the Bank of Bengal*, p. 12.

To T. R. Becher, Esq.
H. St. G. Tucker „
R. W. Cox „
Directors of the Bank of Calcutta.

Gentlemen,

We request you will be pleased to acquaint us whether it will be agreeable to you to undertake the sale of the Lottery tickets at the Bank, and to remit the proceeds to the General Treasury as often as they amount to ten thousand rupees; also to undertake the payment of the prizes agreeably to the list containing the numbers of the tickets drawing prizes, which will be signed by us, and for the amount of which the Treasury Order drawn in our favour will be made over to you.

We have &c.

Agreed that the Bank undertake the sale of the Lottery tickets and the payment of the prizes as proposed in the above letter."

Even as late as 1820, the lottery business continued to be a most important banking business. This will appear from the following balance sheet extracted from a letter dated January, 1820, which has been described by Brunyate as the "average state of the funds of the Bank" during the period of 13½ years in which the first Charter as in force, *viz.*, from 1809 to 1823[9]:—

in 1820.

[9] Brunyate's *Account of the Presidency Banks*, p. 5.

LIABILITIES.

		Rs.	Rs.
Capital	...	50,00,000	
Bank Notes outstanding	...	43,58,000	
Accounts Current	...	4,96,000	
Lotteries, Premia & Sundries	...	4,25,000	
			102,79,000

ASSETS.

Cash Balance	...	28,96,000	
In Company's Loan Paper	...	37,68,000	
Treasury Notes	...	8,99,000	
Loans to the public on deposit	...	17,28,000	
Bills Discounted	...	9,88,000	
			102,79,000

Banking business.

The next item on the agenda of the second meeting of the Board of Directors of the Bank of Calcutta was the consideration of the business to be undertaken by the Bank. It was resolved to publish an advertisement in the *Calcutta Gazette*, the draft of which was approved at the meeting. Accordingly the following notice appeared in the *Gazette* of May 8, 1806.

Date of commencement.

"1st The Public are hereby informed that the Bank of Calcutta will commence business on Monday the 2nd June.

"2nd The Directors of the Bank will meet every Wednesday after the above date for the purpose of receiving and determining on all applications for Loans in Specie under Clause VIII of the Provisional Arrangement for the Management of the Bank. A Box will be open at the Bank from Nine till Twelve O'Clock on

that day for the reception of such applications which must be presented under Sealed Covers addressed to the Secretary, and accompanied by the Government Paper to be deposited as Security for the Loan."

Form of Pro Note.

The form of Promissory Note prescribed for loans is given below.[10]

"Two months after date, I promise to pay in Specie to J. W. Sherer, Treasurer of the Bank of Calcutta, on account of the Said Bank, the sum of Sicca Rupees. . . . for which I lodged in the said Bank Company's Paper to the amount of . . . . and in default of payment at the period above-mentioned, I hereby authorize the Treasurer of the said Bank for the time being, to dispose of the said Paper for the reimbursement of the said Bank of Calcutta."

Contract with modern complexities.

This is a peculiar Banking instrument, which is really a Promissory Note and a Letter of Lien[1] rolled into one. At the present time, however, there is no mention of the securities in the Promissory Note, these being detailed in a schedule appended to a separate Letter of Lein, which runs as follows :—

10 *Calcutta Gazette*, May 8, 1806.

1 Banker's lien is different from ordinary lien, for it includes not only the right of holding the securities till the debt is satisfied but also the right of sale.

"$\frac{\text{I}}{\text{We}}$ the undersigned-
do hereby acknowledge that $\frac{\text{I}}{\text{We}}$ have deposited with the——————Bank, Limited (hereafter called the 'said Bank') the Documents comprised in the Schedule hereunder written to the interest that the same and all the property, moneys and advantages, comprised in, secured or represented by, and derivable under or by virtue of such Documents, shall be a security for the payment to the said Bank of all moneys which now are, or which at any time or times hereafter may become due from $\frac{\text{me}}{\text{us}}$ to the said Bank, whether alone or in co-Partnership with any other person or persons, in account current with the said Bank (including money owing upon any Cheques, Promissory Notes, or Bills of Exchange drawn, accepted, or endorsed by $\frac{\text{me}}{\text{us}}$ or which shall have been paid for $\frac{\text{my}}{\text{our}}$ credit, either solely or jointly with others, and including also interest with monthly rests, commission and other customary charges). And $\frac{\text{I}}{\text{We}}$ hereby agree to pay off all such moneys when thereunto required by the said Bank, or the Manager, or Assistant Manager or any Branch Manager thereof or Accountant either verbally or in writing. And we hereby agree and declare that if I fail to pay off such moneys within 24 hours after demand the said Bank may, at any time or times after such

default by $\frac{\text{me}}{\text{us}}$ in such payment, sell the said property, moneys and advantages, and the Securities for the same or any of them, or any part thereof and may buy in or rescind contracts for sale, and resell without being accountable for any loss or diminution in price, and may, out of the sale money, retain all moneys owing on this security with all costs and expenses incurred. . . ."

Period of loan extended.

There are many more clauses in a modern Letter of Lien, which cover all possible contingencies. Evidently, loaning was quite a simple affair in those days, involving very few formalities. But the period for which loans could be granted was very short,—only two months. It is not known whether renewals were liberally granted to make matters easy for borrowers but it is apparent that a difficulty was very soon experienced. On January 28, 1807, the Secretary and Treasurer to the Bank requested the Government to sanction an extension of the period to three months. This was granted the next day.[2]

Loan against salt not sanctioned.

On May 26, 1807, the Bank applied for permission to advance against *Char Chitties* granted from the Salt Department to purchasers of salt at the Company's sales. This was refused on the ground that

[2] O. C. 39, January 29, 1807.

any interference on the part of the Government in the mode stated respecting the salt merchants would be liable to objection.[3]

Pro Note made out payable to responsible official by name.

It should be noted that the promissory note was to be made out payable to the Treasurer by name, and not to the Bank of Calcutta. Even as late as 1851, this method of making bills payable to a Corporation was in vogue. For instance in the *Calcutta Exchange Prices Current*[4] of March 20, 1851, we find the following notice published by the Oriental Bank[5] :—

3 O. C. 49 and 50, May 28, 1807.

4 *Calcutta Exchange Prices Current* was a weekly financial paper published every Thursday under the authority of the Exchange Committee of Calcutta. A file for about 40 years from 1820 to 1858 (with some numbers missing) is carefully preserved in the Bengal Secretariat Records Office and contains a mass of information which would be of great help for the preparation of a history of the Calcutta Money Market. The Prices Current contained :—(1) prices of staple commodities of Bengal; (2) prices of produce of China, Java, Sumatra, Malabar Coast, Persian Gulf, etc.; (3) prices of produce of Europe, America, etc.; (4) Course of Exchange of London and inland monetary centres; (5) prices of Securities such as Government Paper, Bank Shares, etc.; (6) money rates; (7) price of bullion; (8) statement of imports; (9) statement of exports; (10) shipping intelligence; (11) reports of other markets when received, etc.

5 The Oriental Bank Corporation was established in October, 1842 in Bombay under the name and style of the Bank of Western India, mainly to carry on exchange operations which could not be done by the Bank of Bombay under their Charter. The Calcutta Office was opened in 1844, and the London Office in the next year when it was incorporated as a Joint Stock Bank and received its new name. There were branches also in Colombo, Galle, Kandy, Madras, Singapore, Hongkong, Shanghai, Mauritius, Melbourne, Sydney and Edinburgh. See Cooke's *Banking*, pp. 141—151.

"All applications for Home remittances to be addressed to the Manager and all Treasury Drafts, Hoondees and other orders for realisation to be endorsed as follows: 'Pay to William Anderson, Manager, Oriental Bank, or order.'"

The other clauses of the business notice issued by the Bank of Calcutta were:—

Sale of Government Securities etc.

"3rd The Directors will also receive at the same time Tenders for the Sale of the Government Treasury Notes, or Advances of Money upon the Security of such Notes."

As already stated, the Manager of a modern Bank or his Deputy is entrusted with this work, subject to "limits" assigned to each party by the Board of Directors.[6]

Rejected loan applications.

"4th Should the Directors find it necessary to reject such Tenders, or the application which may be made to them at any time for Loans, the Letters containing such applications or Tenders with the Government Paper will be returned, superscribed 'rejected,' under a sealed cover, addressed to the Parties, without any reason being assigned for the rejection."

This method of dealing with loan applications precluded all possibilities of disclosure and may well be followed even to-day. The only difficulty is that there should be a record

6 See page 19 *ante*.

of all securities received in, or handed out, by the Bank to prevent fraud.

Loans granted.

"5th Whenever an application may be complied with, or a Tender be accepted either wholly or in part; the necessary communication will be immediately made to the Party by the Secretary and the accommodation will be granted with as little delay as possible.

Bank Notes and Treasury Bills.

"6th The Treasurer of the Bank will at all times (Sundays and Public Holidays excepted) during the established hours of business, receive and comply with all applications for the issue of Government Treasury Bills in exchange for the Notes of the Bank. The Treasurer will also comply with all applications for the issue of the Notes of the Bank in exchange for the Government Treasury Bills, the Directors exercising however a discretion with respect to the issue of Notes under 250 Rupees in exchange for Treasury Bills."

As stated in the 9th paragraph, *post*, the Bank undertook to cash notes under Rs. 250 in specie whenever presented to the Bank.

Bills on *mofussil* centres.

"7th The Treasurer will receive at all times, as expressed above, applications for Bills on the Provincial Treasuries, and such applications will be immediately complied with, either wholly or in part,

whenever the Bank will find it practicable to obtain such Bills from the Public Treasury. A Paper will be affixed at the Bank from time to time, specifying the rates of exchange at which the Bills will be negotiated, and these rates will be moderate in all cases."

This list of exchange quotation differs considerably from its modern analogue. It does not give the rates at which business had been done the previous evening; it gives the rates at which the Bank was prepared to negotiate bills on up country centres. Modern exchange tables give mainly foreign exchange quotations but the table in the Bank of Calcutta gave only rates for inland remittances.

Exchange list.

"8th The Notes of the Bank will be issued in the undermentioned Sums, and be signed by one of the Directors of the Bank :—

Denomination of Bank Notes.

For	10	Sicca	Rupees
	50	,,	,,
	100	,,	,,
	250	,,	,,
	500	,,	,,
For	1,000	Sicca	Rupees
	5,000	,,	,,
	10,000	,,	,,

"9th The Notes under 250 Rupees will be paid at all times at the Bank in Specie.

Small notes.

On and from February 16, 1807, con-

vertibility was extended to Bank notes of every description.[7]

"10th All Promissory Notes or other Obligations to the Bank are to be made payable to the Treasurer, who will execute the necessary discharges."

Bank instruments payable to Treasurer.

Further facilities were arranged from time to time, as notified in the *Calcutta Gazette* of February 19, 1807 as follows:—

Discounting of Bills on Governor General.

"Notice is hereby given that . . . Bills of Exchange drawn on the Governor General in Council will from the 16th instant [February 16, 1807], be discounted at the Bank, whenever it may be convenient, on application being made for that purpose.

"That the Bank will open accounts with individuals from Monday the 2nd March."

Opening accounts.

On April 14, 1808, the Bank applied to the Government for reduction of the discount rate from 10 to 9 per cent. as follows[8]:—

Reduction in discount rate.

"The advantages arising to the Bank of Calcutta from Loans granted to Individuals on deposit of Government Securities at the rate of 10 per cent. per annum, having for

7 *Calcutta Gazette*, February 19, 1807.

8 O. C. 64, April 16, 1808. The permission sought for was granted.

some time past, considerably reduced, owing to the Merchants and Agents of Calcutta discounting private acceptances, and granting Loans at the same rate of Interest without such Collateral Security as is required by the Bank. The Directors of the Bank are therefore of Opinion that it is expedient to reduce the Interest on Loans, and discounts from 10 to 9 per cent. . . ." This letter is interesting as showing that clean advances were in vogue in Calcutta and that the Bank had been successful in easing the Money Market to a considerable extent after less than two years' working. The General Bank of India met with similar success as a result of its intimate association with the Government.

Appreciation of Government Securities.

The improvement in the value of Government Securities was no less noticeable. In less than a year there was a welcome reduction in the discount as shown below[9]:

Loans.	Premium or Discount.	May 12, 1806		April 20, 1807	
		Buy.	Sell.	Buy.	Sell.
		Rs. As.	Rs. As.	Rs. As.	Rs. As.
Six per cents	Discount	5 12	6 4	2 8	3 0
Old 8 per cents	Discount	1 4	1 8	0 2	0 4
Eight per cents : loans of 1800	Discount	1 0	1 4	0 0	par
,, ,, ,, : ,, ,, 1801, 2, 3 and 4	Discount	0 12	1 0	par	0 4
					premium
Ten per cents	Premium	1 12	1 8	2 8	2 0
,, ,, ,, for 2 years	Premium	0 2	par	0 8	0 4

9 *Asiatic Annual Register*, 1807, Vol. IX, pp. 119, 120.

This was brought about by the earnest endeavours of the Government in pushing the Bank of Calcutta Notes into circulation, in the place of depreciated Treasury Bills, as soon as the Bank was started. Thus we find the following notice dated May 14, 1806 issued by the Public Department[10]:—"The public are hereby informed, that the sub-treasurer has been directed to discontinue the issue of treasury bills in payments from the general treasury from the 31st instant, after which date the notes of the Bank of Calcutta will be issued in payments to individuals. . . . The notes of the Bank will be received in all payments to government at the different treasuries and public offices at the presidency. . . ."

Issue of Bank Notes from the Treasury.

Not only were the notes freely accepted in all transactions in Calcutta but they had also a considerable circulation in the *mofussil*. This however raised one difficulty. Instead of effecting remittances through *hundis* in the time-honoured fashion, people began to cut the Bank Notes into two halves, which were sent one after the other. The Secretary was therefore obliged to request the Government to direct the Collectors in the *mofussil* to accept them in payment of revenue in the following letter dated June 22, 1806:—

Cutting of Notes.

10 *Asiatic Annual Register*, 1807, Vol. IX, p. 81.

". . . the Bank Directors are of opinion that the intention which Government had in view of extending the circulation of Bank Notes by permitting them to be received at the Subordinate Treasuries would be entirely frustrated if Individuals were not allowed to secure themselves from eventual loss by cutting the Bank Notes in halves and they accordingly beg leave to suggest that the Collectors in General may be directed to receive Bank Notes which have been cut and joined together again, whenever they may be tendered, taking care to ascertain that the two parts of the Notes correspond."[1] This application was granted and a Circular letter was issued to Collectors in the *mofussil*.

Payment of lost Notes.

Another difficulty due to this extensive circulation was that the Bank received many applications for the payment of Notes lost or destroyed, which it could not entertain under the Articles. The Secretary therefore addressed a long letter to the Government praying for sanction for the payment of such Notes under the following safeguards[2] :—

Safeguards.

"(1) Parties shall be required to describe the Notes accurately (2) to cause payment to be stopped at the Bank (3) and notice thereof

[1] O. C. 60, June 24, 1808.
[2] O. C. 47, April 8, 1808.

published in the *Calcutta Gazette* (4) and provided they are not recovered within six months from this period (5) that the Parties make oath to their loss and (6) execute a Bond of Indemnity agreeably to a form to be prepared by the Hon'ble Company's attorney and approved by the Advocate General."

The Advocate General in his letter dated April 27, 1808 considered these safeguards as more than sufficient.[3] He pointed out, . . . "these voluntary oaths are in no case of any avail, as the breach of them does not amount to the legal offence of perjury, and the administration of them though not absolutely illegal is considered as a practice not much to be countenanced in our Courts."

Advocate General's Opinion.

He however suggested one restriction for the consideration of the Bank in the following words:—"Another point . . . is the fixing an amount below which they will not grant relief; a certain degree of expence (*sic*) which attends the making out of the Bond will operate as a check against applications in very trifling cases, but perhaps it may be necessary to go somewhat further as a general rule, reserving of course a discretion to themselves in cases of compassion. . . ."

Notwithstanding this learned disquisition on Bank Notes, they laboured under a great

[3] O. C. 38, April 29, 1808.

legal handicap. Even in 1809, their theft was not an offence under law. The Directors of the Bank of Bengal made a strong representation in their letter dated October 2, 1809.[4] A reply was received from the Government on the next day that steps had been taken to pass the necessary legislation.[5]

Theft of Bank Notes was not an offence.

But we are anticipating events. Some time necessarily elapsed before power could be obtained from Parliament and sanction from the Court of Directors for the establishment of the "permanent bank." At last in a notice dated September 24, 1808, issued by the Public Department of the Government,[6] it was announced that these preliminaries had been settled and the plan of the "permanent bank" was published for general information. There were 60 articles, which differed from the plan described above in some respects. It was therefore laid down in the 58th article that the original subscribers were free to withdraw their subscription on account of the change in the articles "on their signifying their wish to do so on or before the 20th of November next." The chief points of interest are given below :—

Plan of Bank of Bengal.

4 O. C. 3, October 3, 1809.

5 O. C. 5, October 3, 1809.

6 *Asiatic Annual Register*, 1808, Vol. IX, pp. 267—272.

"16. Each share shall entitle the proprietor to a vote as far as five shares; but beyond five, not less than two shares shall be necessary to give a vote; and no individual or company shall be allowed more than ten shares, or to have more than seven votes.

Right of voting.

"17. Government shall not be considered as having a right to vote on any questions relating to the appointment or removal of the six directors [elected by the proprietors], nor on any question concerning the interior management of the bank.

"18. After the first six months, no person shall be allowed to vote at any general meeting of proprietors, who shall not have possessed and duly registered the share or shares, (on account of which he may claim the right to vote) for a period of three months at the least.

"26. Three of the directors shall officiate alternately for one week, for the dispatch of the current business, and the general superintendence of the bank; and the signatures of three directors shall be considered necessary to all accounts, deeds, obligations and other papers of the bank requiring attestation.

Directors as Superintendents.

"42. They (*i.e.*, the directors) shall be at

liberty to purchase the public securities at any future period at their discretion, provided that the government paper in their possession never exceeded, at any one time, the sum of sicca rupees 25,00,000 in addition to the amount, which the bank may be required to deposit with government, as a security for the credit given to the bank by the receipt of its notes at the public treasuries.[7]

Limit to holding of Government Securities.

"43. The directors shall be restricted from contracting debts by bond, bill, note, or otherwise, to an amount exceeding the capital stock of fifty lacks; and if such debts shall be contracted, the directors contracting them shall be responsible for the excess in their individual capacities; but absent, or dissenting, directors shall not be responsible, provided that they give notice to the proprietors at a general meeting to be summoned for the purpose.

Personal liability of Directors.

"47. Should the treasurer allow any person to overdraw his account, he (the treasurer) shall be personally responsible for the excess.

and of Treasurer.

"48. The bank shall be considered as

7 This amounted to Sicca Rs. 20,00,000. See *post*.

absolutely precluded from trade, and any directors infringing this fundamental rule, shall be liable to dismissal, and to such other penalties as it may be found practicable to enforce, but this restriction shall not be considered as precluding the directors from receiving articles of merchandize in deposit as security for loans. . . .

Bank strictly prohibited from trading

"49. The bank shall not be allowed to act as agents or brokers for the purchase or sale of company's paper, or goods or property of any kind; but this prohibition shall not be considered as applying to the sale of paper, or other property, which may be pledged to them as security for loans.

and even from negotiating purchase and sale of Government securities.

"53. The directors shall be required to submit annually to the proprietors, on the first Monday in June, a general account of the transactions of the bank, for the preceding year, to be closed on the 30th of April, and they shall accompany it with such a report as may be necessary for their information. A copy of the account and report, attested by the directors, is to be transmitted annually to government, on, or before, the 15th of June."

Annual Bank report.

It was laid down in the fifth article that

"the six directors to be appointed by the proprietors, shall be elected by ballot at a general meeting of proprietors; to be held at the bank, on Thursday the 15th of December next." In pursuance to this, a meeting was held and the following gentlemen were elected the first Directors of the Bank of Bengal:—Alex Colvin, John Palmer, James Alexander, George Tyler, John W. Fulton and Raja Sookmoy Roy.[8] The three Directors nominated by the Government were:—Henry St. George Tucker, who continued to be the President of the Board, Richard Waite Cox and William Egerton.[9]

Election of Directors.

The following principal officers were appointed by the Directors:—William Morton, C.S., as the Secretary and Treasurer; Henry Tyler as the Accountant; and Ramchunder Rae as the *Khazanchee*. These three officers and the nine Directors were requested to attend the Council Chamber for the purpose of taking the oath of office.[10] It was thus that the Bank of Bengal was launched on its career of usefulness on January 2, 1809. On January 7, rates were "fixed at 10 per cent. per annum on Bills and Notes, and 9 per cent. on Loans on deposit."[1]

First half-year's working.

8 *Asiatic Register*, 1808, Vol. X, p. 117.
9 O. C. 19, January 6, 1809.
10 O. C. 19, January 6, 1809.
1 Cooke's *Banking*, p. 99.

This slight increase in the rate of discount did not diminish the business in any way. For, the time for discounting had to be extended till 2 p.m. on Mondays and Thursdays.[2] On January 19, securities aggregating Rs. 20 lacs "were indorsed to the Sub-Treasurer as a security for the credit given by the Government to the Bank by the receipt of its notes."[3] There was a change in the directorate on February 16, Henry Stone being appointed in the place of Richard Waite Cox by the Government. On July 6, the Bank declared a dividend of 9 49/64% *i.e.*, Sicca Rs. 488-4-6 per share of Sa Rs. 10,000 each.[4] The first half-yearly balance-sheet and report were sent to the Govenment in due course and were considered on November 28, 1809.[5] The letter forwarding the balance sheet is still to be found carefully preserved among the Secret Department records of the Imperial Records Office, Calcutta, but the balance sheet has disappeared.

The present has its roots in the past.

With the establishment of the Bank of Bengal there dawned a new era of banking in India. Entrusted with the funds of the Government, it had a prestige which no other bank had. Its notes alone

2 *Calcutta Gazette*, January 12, 1809.

3 Cooke's *Banking*, p. 99.

4 *Calcutta Gazette*, July 13, 1809. But Cooke gives the rate 9¾%, which seems to be wrong.

5 O. C. 9, November 28, 1809.

were recognised by Government and it was easily the premier bank in India at the time. The story of its rise and progress has been told by Cooke, Brunyate, Symes Scutt and many other writers. Some additional information is available in the Imperial Records Office and Bengal Secretariat Records Office. But the account published by these writers is fairly full. It is, however, too often forgotten that the Charter and Constitution of the Bank of Bengal owed much to the previous schemes, *e.g.*, that outlined by Sir James Steuart in 1772 or the Plan of the General Bank of India. The moribund condition of the Bank of Hindostan, the dissolution of the General Bank of India, the failure of the Bengal Bank, are all instructive to the student of banking. Eighteenth century banks failed, but it was out of their ashes that the nineteenth century banks rose. Successes may or may not have their lessons, but failures certainly have. The long and tedious extracts from official documents as well as the small and obscure notices in old files of newspapers, show that the pioneers of European banking had to face many difficulties and their experience was of considerable value to their successors. We may go further and say that the story of their triumphs and failures, trials and difficulties has a lesson for us even to-day.

PART II.

Decline of indigenous banking.

In tracing the history of early European banks, many questions naturally arise in the mind of the economic inquirer. The first is why did not the indigenous banks adapt themselves to the new conditions. Why was it necessary to establish European banks with State aid? We have seen that the indigenous bankers were willing to accept Bengal Bank Post Bills in preference to their time-honoured *hundis*. Their failure to adjust themselves to the new circumstances must therefore be ascribed not to their narrowness or conservatism but to the circumstances of the time. During the latter half of the eighteenth century, when the East India Company was in power without responsibility, most of the foreign trade passed out of the hands of the people. The inland trade also was monopolised by the servants of the Company for a considerable time. As a result of this, the indigenous bankers naturally lost their old preeminence. The principal house, the house of Jagat Seth was a mere relic of its former glory, although it continued to be the ordinary channel for remittance of public revenues from its

different branches to Calcutta for some time to come.[1] The unsatisfactory position of indigenous banking in 1771 is described in the following letter from the Council of Revenue at Murshidabad to Dacca dated April 1, 1771[2]:—"The merchants upon whom the last bills were drawn from Dacca and Tipperah . . . have not been punctual in the discharge of them, this renders it necessary that we should refer you to our orders of the 11th and 21st ultimo to the Superiors for making the remittance of revenue by bills on the house of Juggut Seat which were given not only to ensure punctual payment here but to obviate all risk of loss accruing to the Government."

Hindostan Bank unable to transmit revenue.

But European banks could not fill the void created by the decay of the old indigenous banks. The Bank of Hindostan established at about this time was unable to undertake the transmission of revenue on behalf of the Government. Its main business was to finance foreign trade. The Bank had no upcountry branches nor were arrangements made with the indigenous banks in the *mofussil* by means of which bills might be drawn on the Bank by them for

1 The house of Jagat Seth remained the Company's bankers till 1782. See Hand's *Early English Administration in Bihar*, (1894), p. 68.

2 Prof. J. C. Sinha of the Dacca University has unearthed this letter from the old records of the Dacca Collectorate.

transferring revenues to Calcutta or *contra* bills might be drawn by the Bank on the *mofussil* banks for financing the purchases at the various *aurungs*.

Indigenous bank under Government patronage.

This lop-sided activity of the Bank of Hindostan compelled Warren Hastings to institute an indigenous bank under Government patronage in April, 1773.[3] The object is explained in the following circular letter to the Residents in the *mofussil* dated April 23, 1773 :—"We have for some time past had under our deliberation the scheme of establishing a general bank in Bengal and being persuaded that the measure will prove of the greatest utility and convenience not only to the Company in drawing the receipts of their revenues from the out districts to the presidency, but also to private merchants in making their advances to the *aurungs*, and otherwise in facilitating and rendering secure the course and circulation of their trade, we have determined to adopt it." The Regulations appended to this letter laid down that there was to be a head office in Calcutta with branches in every district of the province. These branches were to exchange rupees of every description into *Siccas* at a stipulated *batta* and to remit Government balances to Calcutta at the following rates :—

[3] For details about this bank see *Notes on the History of Midnapore* by J. C. Price (1876) Vol. I, pp. 201—206.

"Hooghly	2	day's journey	from Calcutta,	at 2 as. per day, is	$\frac{1}{4}$%
Nuddea	4	do.	do.	do.	$\frac{1}{2}$%
Jessore, Burdwan	5	do.	do.	do.	$\frac{5}{8}$%
Midnapore	6	do.	do.	do.	$\frac{3}{4}$%
Beerbhoom, Bishnupur, Moorshedabad	8	do.	do.	do.	1%
Pachet	10	do.	do.	do.	$1\frac{1}{4}$%[4]
Dacca, Rajmehal	12	do.	do.	do.	$1\frac{1}{2}$%[5]
Dinagepore, Purneah	16	do.	do.	do.	2%
Rungpore, Boglepore	18	do.	do.	do.	$2\frac{1}{4}$%"

4 In the original the rate is given to be ¼ per cent. in error.

5 ½ per cent. in the original.

Indigenous banks further deteriorate.

This bank did not prove a success and was in fact short-lived. Apart from its own mismanagement, there were other causes, partly political, partly economic, affecting all indigenous banking houses adversely. They continued to operate even after the East India Company had begun to govern Bengal in their own name. The extent of the decay during the succeeding decade will be evident from the following letter addressed by the Revenue Chief of Bihar to the Committee of Revenue dated April 11, 1781[6] :—"Not being able to procure good and secure bills through the *shroffs* at Patna for so large a sum (Rs. 3,07,759) I am under the necessity of remitting the balance of my treasury in specie." But this course was very costly, for communications were difficult and robberies quite frequent. Unfortunately there was no help for it. For, on more than one occasion, the drawees of bills defaulted and the full amount could not be recovered by the Government. For instance, in July, 1780, when the house of Ram Churn Sow and Gopal Churn Sow dishonoured a *hundi* drawn on them, only Rs. 40,389 could be realised out of the full amount of Rs. 53,619. In September of the same year, another loss was sustained by the Government.[7]

6 See Prof. J. C. Sinha's *Economic Annals of Bengal*, Ch. III.
7 Hand's *Early English Administration in Bihar*, p. 69.

European banks unable to take the place of indigenous banks.

At about this time, the Bengal Bank was established. Although it received Government recognition to some extent, it did not command enough credit to be entrusted with the remittance of revenues from the *mofussil.* In fact, Cornwallis declined to accept its notes in payment of Government dues. As we have seen, its attempt to remit funds to Bombay and Surat by means of Post Bills also failed. The General Bank of India, which was the third bank to be established on European lines, was as ill-equipped as the other two for the remittance of funds on behalf of the Government, having no branches in the *mofussil*, although some arrangements were made by it for financing different *aurungs.* In fact, the European banks formed a class by themselves, attracting deposits and making advances, mainly in the Presidency town of Calcutta, on European lines. The indigenous bankers continued to carry on their accustomed business throughout the *mofussil*, and even in Calcutta, although on a more restricted scale.

European banks *vis a vis* indigenous banks.

It is therefore clear that European banking, emerging as it did out of the *débris* of indigenous banking, was nevertheless quite distinct in its functions. It is not true, as suggested by some

writers on Indian banking history, that European banks merely stepped into the shoes of indigenous banks. The fact is that the political and economic upheaval at the time was at once destructive and constructive. The same causes which destroyed the indigenous banks constructed the European banks, but these were distinct processes, although simultaneous. It will not be correct, however, to go to the other extreme and characterise the one as entirely independent of the other. It is true that the currents of European and indigenous banking were quite distinct, but there were a number of channels connecting the two. These had different names at different times.

Need of an intermediary.

When the Europeans first came to the East, they had no knowledge of the laws and customs of the people. An intermediary was therefore necessary. Even now there are *Compradors* in China and *Bantos* in Japan, as there are *Banyans*[8] in India. At the present time, however, the *Banyan* has been shorn of much of his former glory. He is now simply a guarantee broker, having nothing to do with finance. He is a mere memory and a name.

The eighteenth century *Banyan* is graphi-

[8] *Mutsaddi* in the vernacular.

cally described in the *Calcutta Review* as follows[9]:—"He is interpreter, head book-keeper, head secretary, head broker, the supplier of cash and cash-keeper, and in general also secret-keeper. He puts in the under-clerks, the poster or door-keeper, stewards, bearers of the silver, slaves, running footmen, torch and branch light-corriers, palanqueen-carriers, and all the tribe of under-servants, for whose honesty he is deemed answerable, and he conducts all the trade of his master, to whom, unless pretty well-acquainted with the country languages, it is difficult for any of the natives to obtain access, ... and further serves very conveniently sometimes in public discussions to father such acts or proceedings as his master durst not avow. . . ."[10]

Banyan in eighteenth century.

As trade passed from the hands of private merchants to Agency Houses, the *Banyan* became something different from a mere *factotum* of private European gentlemen. His functions as a guarantee broker and a financier became more and more prominent. Subsequently, when the banking function of the Agency Houses came to be per-

His functions gradually change.

9 *Calcutta Review*, 1860: Article VI, *Calcutta in the Olden Time—Its People.*

10 This last function of the *Banyan*, which was not the least important of his numerous functions, is described in the following extract from the *Calcutta Gazette* of September 6, 1798:—

formed by banks themselves, the guarantee business of the *Banyans* passed on to the hands of *Shroffs* or bill brokers. It is thus evident that in spite of new names, the essential functions remained the same. Agency Houses[1]

"*How to sell an investment of Europe goods to the best advantage*. Send your invoice book to the different shop-keepers, to enable them to make their calculations. Invite them to make proposals in writing, declaring upon your word and honor, that you will not communicate their offers; promise one who you may find would give a very high price, in order to oblige his friends and customers, that you will not sell without a reference to him, and in case you should be told that you may probably have an offer which will preclude all others, *viz.*, an offer to give one or two per cent. more than any of the proposals mentioned, you must assert in the most solemn manner that you will not receive such a one. Be very particular and pointed on this, or no direct offers will be made you.

"When you have seen all the proposals, you must send your banian, with a verbal message to the person you may think most desirous of buying (even if he be already the highest bidder by five per cent.) and tell him to amend his offer; this will bring five per cent. more, and having worked him up to the highest, you must take care to let the offer be known. Some person who has been laying by (*sic*) will then come forward and offer you two per cent. more.

"Should the party who had made the previous offer accuse you of breaking your word and honor by communicating it, *you must lay the blame on the banian, and say you did not mean to do wrong.*" (Italics mine).

This is undoubtedly a comic skit but the thing must have been well-known to inspire this.

1 "The Agency Houses were chiefly formed of gentlemen, who had been in the civil and military services, who finding their habits better adapted for commercial pursuits, obtained permission to resign their situations and engage in agency and mercantile business. They received the accumulation of their funds in the Company's service. They lent them to others or employed them themselves for the purposes of commerce, *they were in fact the distributors of capital rather than the possessors of it. They made their profits* in the usual course of trade and *by difference*

as well as banks dealt in other people's money. Both *Banyans* and *Shroffs* were guarantors as well as financiers. Again, just as *Banyans* formed a nexus between Agency Houses and indigenous bankers, similarly *Shroffs* brought about a contact between the European and indigenous banks.

Competition between indigenous and European banks.

It would have been better for both of them if they had remained satisfied with this connection through the agency of *Shroffs* and had confined themselves to their respective spheres of business. But in their anxiety for larger profits, the European banks tried to compete with indigenous bankers in the remittance business, in spite of the fact that they were not sufficiently equipped for the purpose. The Bengal Bank Post Bills failed to "catch on." The General Bank's attempt to remit money to the *mofussil* through their Post Bills met with no better success. Even as late as 1791, when the disintegration of indigenous banking had made considerable progress, Cornwallis and his Board questioned the utility of European banks which they considered to be superfluous in view of the indigenous institutions, although fallen on evil times.

of interest in lending and borrowing money and by commission." —Evidence of Mr. Bracken before the Select Committee of the House of Commons on March 24, 1832. (Italics mine).

Contribution of European banking.

Why then,—the question is put once again,—why then was it necessary to make repeated attempts to establish banks on European lines? The reason is that they supplied a want and made important contributions to banking in India. In the first place, they added a fourth function, *viz.*, the issue of notes to the other three functions already performed by indigenous bankers, *viz.*, acceptance of deposits, making of advances and discounting of bills. How important this new function was can be understood only by considering the condition of the currency at the times when banks under Government patronage came to be established in this country.

Financial position at the time of General Bank.

As we have seen already, the Preamble to the Plan of the General Bank of India and the official correspondence leading to the establishment of the Bank of Calcutta both indicate acute financial embarrassment of the Government. But numerous contemporary official papers show that the state of things was if possible worse than that represented by the Banks. Although Hastings tried to rehabilitate the finances of the province by a series of administrative measures, he left Bengal in hopeless embarrassment. The position is described by Cornwallis in two despatches to the Court of Directors

sent shortly after his assumption of office.[2] In his letter dated November 13, 1786 he referred to the heavy discount on Company's paper, which, he stated, could be removed only by a scrupulous observance of obligations to the public for the present and a steady reduction of outstanding debts in the future. This was clearly impossible in the existing state of financial administration. For instance, Cornwallis had to call on the Revenue Board to account for "the extraordinary discrepancy between the estimated and actual receipts. The former having been stated at 92 lacs 59,000 rupees, whereas the receipt into the *khalsa* was expected to be only 66 lacs 12,000 rupees."

Borrowing to cover deficits.

In his second letter written after another month's investigation into the affairs of the Government, he drew the pointed attention of the Court to the difficult position of Bengal's finances. He clearly explained that "while the unavoidable expenses of the establishments, the interests due upon the debts,[3] and the demand from the other presidencies, absorbed the produce of the revenue, considerable investment could only be

2 *Rise and Progress of the British Power in India*, by Peter Auber, M.R.A.S., Late Secretary to the Honourable Court of Directors of the East India Company (London, 1837), Vol. II, p. 46, *et seq.*

3 The debt was Rs. 6,24 lacs, carrying interest at 8¾%.

made by fresh issues of paper, by which mode the evil might be protracted, but would only be ultimately increased. It exhibited a delusive appearance of wealth, which could not be supported, and by a temporary accommodation entailed permanent distresses."

Sound paper currency a crying need.

To obviate the financial difficulties inherent in such an administration, the General Bank of India was established and eagerly seized by the Government of Bengal to rehabilitate their credit, though not with the approval of the Court of Directors in London. The Bank of Calcutta, as we have seen already, came to be started under the auspices of the Government under equally trying financial embarrassment. The treasury was then altogether bankrupt, chiefly as a result of the forward policy of Wellesley. Thus, it is evident that the early European banks,[4]—at least those that were under the patronage of the Government,—were intended to reform the financial system by the issue of notes[5] rather than extend the ordinary banking facilities like the remittance of revenue already afforded by the indigenous bankers.

[4] The maximum circulation of the Bengal Bank notes is not known. It was eight lacs at the time the Bank suspended payment. That of the Bank of Hindostan, reached twenty to twenty-five lacs. See Cooke's *Banking*, p. 201.

[5] Thus Sir James Steuart's prophecy was fulfilled.

Financing of foreign trade.

Another contribution of European banking to the Indian Money Market was the financing of foreign trade. Originally started as branches of Agency Houses, it was quite natural for the European banks to devote a considerable part of their resources to this purpose. The indigenous bankers, then as now, mainly concerned themselves with inland trade. Almost the entire foreign trade had passed into the hands of Europeans when European banks came to be established.

Bank notes and Government paper.

The main contribution of European banking to the Indian Money Market was therefore the issue of paper currency. Although the direct effect was small, the circulation being confined mostly to the presidency town, the indirect result was far-reaching. It has already been pointed out that Government securities formed the reserve against the notes issued by the General Bank and the Bank of Calcutta. This new use rehabilitated their value and gave them extended currency. When the Bengal Bank and the Bank of Hindostan applied for Government assistance in 1791, they both urged the evil consequences of the destruction of their notes. Cornwallis and the Board, however, were impressed not so much with this fear of the diminution of currency as with the increased discount on the

Company's paper which would result from the failure of the Banks.

Importance of Government paper.

In fact, it was of the utmost importance at the time to maintain the value of Government securities, for, with their credit was bound up the credit of the Government. Moreover, as pointed out above, they were used in those days for transactions which may now be done by cheques. Although they were not legal tender,[6] they were freely accepted as security for Government contracts and other dues to the Government. Their universal acceptability rendered them as important as cheques in our own days.

Expedients for circulating them in *mofussil.*

To use Cornwallis's words, the Government wanted that "they should have as high a circulating value as possible." But their acceptability on a wide scale depended on their stability in value. The weak administration of Shore and the forward policy of Wellesley both kept the Government in a state of chronic bankruptcy without any relief from banks. In 1796, the Government was obliged to raise money at the maximum legal rate of interest, *viz.*, 12 per cent. per annum, although the loan was repayable within two years, probably at

6 Treasury Bills were legal tender for Government dues; see *ante*, pp. 97-8.

the end of one year.[7] To attact the small investors, the minimum subscription was fixed as low as possible. To give as wide a circulation as possible, arrangements for receiving subscriptions were made not only in Calcutta but also in the *mofussil* with "the Resident of Lucknow, and the Collectors of Benares, Shahabad, Moorshedabad and Dacca," who were authorised to grant temporary receipts, pending the despatch of properly made out scrips from Calcutta.

Negotiability of Promissory Notes recognised.

These extraordinary methods of raising loans were supplemented six years later by new measures for popularising them. To give a wider currency to Government Promissory Notes, they were recognised as negotiable, although, as we have seen, some of them were not unconditional instruments.[8] In an Additional Supplement to the *Calcutta Gazette* dated April 29, 1802, the following notice bearing the same date was issued :—" . . . . It is hereby

[7] *Calcutta Gazette,* September 19, 1796. Was this due to the "virtual mutiny" of European officers in the Bengal Army in 1795-96 over the *battah* question?

[8] At the present time, the Government Promissory Notes are governed by the Indian Securities Act, (Act X of 1920). Their legal position was correctly described by the Hon'ble Sir Basil Blackett in the course of his address at the Delhi University in November, 1925, in the following words :—"It is difficult to say whether they are negotiable instruments within the meaning of the Negotiable Instruments Act, though the English Law would undoubtedly regard them as negotiable instruments."

notified to the public that although [some] Notes [particulars of which have been given] have been fradulently obtained in the first instance, Government will still consider them as good Notes, provided the holders of them can show they came to the possession of these for a good and valuable consideration."

Intimate connection of banks with Government.

It is therefore clear that the assistance given to banks in their difficulties in 1791 was inspired mainly by the imperative necessity of maintaining the value of the Government securities and was thus more in the interests of the Government than of the banks themselves. Whatever the reason, there is no doubt that the relation of the Government with the Bengal Bank and the Bank of Hindostan, both of which had nothing to do with public funds, was much more intimate than with private banks at the present time. In the case of banks which enjoyed the patronage of the Government, *e.g.*, the Bank of Calcutta, not only general questions of policy, but even mere details, such as, the payment of lost notes, a change in the discount rate, etc., had to be referred to the Government for approval. The long extracts given from the numerous letters between the Government and General Bank also show that the latter took the cue from the former in many cases.

Mutual benefit.

Did this intimate relationship benefit the banks concerned? In one sense *it did*. For, as we have seen, the withdrawal *of* Government patronage meant the virtual extinction of the General Bank. On the contrary, fostered by the care of the Government, the Bank of Calcutta developed into the Bank of Bengal, which easily outdistanced all other banks in India,—even the Union Bank in the hey-day of its glory. But the Government also benefited to an equal degree. The rehabilitation of Government securities has already been referred to. Apart from this, the loans taken from the General Bank were so extensive that the Government could not sever their relationship with the Bank in June, 1788, as ordered by the Court of Directors from London.

Impecunious Government.

But there is another side of the shield. So long as the budget is not balanced and the Government have to cover their deficit by borrowing, a bank cannot be benefited by its connection with the Government. So far as the General Bank was concerned the recognition by the Government of its notes was secured by lending to the Government Rs. 20 lacs at less than the current rate of interest. This necessarily compelled the Bank to charge a higher rate of interest from the public than what was warranted by the money market conditions. In fact, as soon as the

Government debt was paid off, the discount rate could be reduced. Again, such was the financial condition of the Government that it was thought advisable to set a limit to the amount which could be lent by the Bank of Calcutta to the Government!

Then and now.

All this has now been changed. The Government are now lenders to their bank and not borrowers from it. On the other hand, the bank has now been divested of the right of issuing notes and of doing business in foreign exchange, which were the special functions of European banks under the patronage of the Government in early times. The organisation of the Money Market in India is as weak to-day, due to the lack of cohesion among the component parts, as it was then owing to the independence of European and indigenous banks, each going on in its way, notwithstanding the intermediary that aimed at setting up a nexus.

Anomalous position of the Money Market.

The failure of the eighteenth century pioneers to evolve a compact Money Market should open our eyes to similar evils from which we are at present suffering. It is patent that we have neither the advantages of a multiple-reserve system nor that of a one-reserve system, although we have the disadvantages of both. It is as true to-day as when Keynes first wrote

it that our banks work with inadequate cash reserve[9] and "every one is reckoning in a crisis upon every one else." Have we then a Central Reserve, which will help a bank out through a crisis? "It is no one's business," answers Keynes, "to look at the matter as a whole, to know the position of the market's component units, or to enforce prudence when it is needed." This anomaly has not been removed with the amalgamation of the Presidency Banks. For the Imperial Bank of India as at present constituted cannot be called a Central Bank, although it is easily the most important constituent of the Money Market in India.

Imperial Bank and the Government.

In the first place, the right of issuing notes has been vested in the Government since 1862. This divorce between paper currency and banking organisation has made our currency system extremely inelastic.[10] The

9 Recently there has been some improvement, but it is still dangerously low.

10 As early as 1884, Dr. N. P. Van Den Berg, LLD., President of the Java Bank, made a trenchant criticism of this retrograde measure in his *Money Market and Paper Currency of British India.* This book is extremely rare. The author was kindly supplied with a copy,—probably the only copy in India,—by the Bengal Chamber of Commerce.

Dr. Van Den Berg describes in detail the economic consequences of the high and fluctuating rates of the three Presidency Banks, the Banks of Bengal, Bombay and Madras, and remarks : —"These are the disastrous results of the measure of 1861, by which the issue of notes was withdrawn from those very institutions to whose sphere of operation it naturally belongs, to be transferred to the care of the State, merely because no one fully realised the immense benefit, which a well-regulated paper cur-

evil was aggravated in 1893 when the mint also was closed to the public. The expansion and contraction of currency are thus entirely in the hands of the Government, which has not always used its powers to the best advantage of the country. For a managed currency system, such as we have now got in India, is "neither fool-proof nor knave-proof." Apart from this fundamental defect, big reserves have under this unnatural system to be held in London, *viz.*, the Gold Standard Reserve and the sterling portion of the Paper Currency Reserve. If these could be kept with the Imperial Bank, properly reconstructed for the purpose, or with a State Bank, the credit famine from which India is at present suffering would have been a thing of the past. Nor is this the only evil. Gold, which is the mother of credit in other countries, lies in India in useless hoards. With an honest gold standard, there is no reason why this gold should not have formed a part of the currency or of the bank reserve.

rency confers upon the whole community when it is instrumental in meeting a temporary demand for the expansion of the medium of exchange. * * * The real economical value of fiduciary paper does not lie in its portability. That value it derives from its elasticity. * * * This object now *can* never be fulfilled by a State paper-currency. * * * The bullion stored in the vaults of the Currency department is a sufficient guarantee for the public at large that the notes in their hands can at any time be convertible into hard cash; but it does not add in the least to the operating power of the Banks, which only can come to the rescue of trade in times of pressure * * * ." (pp 5—7).

Imperial Bank and Exchange Banks.

In the second place, the Imperial Bank has strictly limited control over the Exchange Banks, the second main constituent of the Money Market in India. As the Bank is practically[1] debarred from doing exchange business, the Exchange Banks look to their Head Offices for finances at the busy season and not to the Imperial Bank of India. The short-sighted policy of the Exchange Banks themselves is responsible for this. They wanted to maintain their close monopoly and systematically opposed any measure which might lead to competition. For instance, when the proposal for the amalgamation of the three Presidency Banks was made in 1900, the Exchange Banks of Calcutta sent a memorial to the Viceroy praying that the projected bank might be debarred from doing exchange business. Their hostility towards a possible rival is also believed to have been the real reason for the repeated turning down of applications by the Presidency Banks for powers to raise money outside India. It is interesting to recall that this restriction against foreign exchange business was deliberately chosen by the Presidency Banks in 1839 and subsequent-

1 The Presidency Banks made repeated efforts to remove this restriction. The only concession granted under the Imperial Bank of India Act, 1920 is that the Bank is now permitted to borrow in London *"against the security of assets."* See Imperial Bank of India Act, Schedule I, Part I, Clause (p).

ly it could not be removed even at thoir repeated entreaty.[2]

Imperial Bank and Indian Joint Stock Banks.

The control over the third main constituent of the Money Market, *viz.*, the Indian Joint Stock Banks, is also not effective. So long as there remains the present scarcity of good bills; so long as it continues to be a sign of weakness for a Joint Stock Bank to rediscount its *hundis*; so long as a regular Discount Market mainly financed by the Imperial Bank is not established;—the Bank rate will continue to be merely nominal as at present. The Imperial Bank must occupy the same position in the Money Market in India as the Bank of England does in England, before it can aspire to be the sun round which the whole financial system revolves.

Imperial Bank and indigenous bankers.

If the relationship of the Imperial Bank with the organised constituents of the Money Market is so loose, it is no wonder that the connection with the unorganised constituents represented by the indigenous bankers,—with private banks of standing at one end and the small village *bániá* or

2 In his *Account of the Presidency Banks* (p. 10), Brunyate points out that before granting the Charter of 1839 to the Bank of Bengal, the Government resolved to vest the Bank with the power of dealing in foreign exchange but the proprietors added the qualifying expression "payable in India" after the words "buying and selling of bills of exchange."

mahájan or *sowcár*[3] charging usurious interest at the other,—the connection with these must be very remote. It is, therefore, clear that until the Money Market is better organised so as to bring all its constituent parts into more intimate touch with the Imperial Bank, it will not be able to function as a Central Bank in the proper sense of the term.

Unsatisfactory features of Imperial Bank.

Although much is due to this faulty organisation of the Money Market, the Imperial Bank itself, as at present constituted, is not free from blame. It forgets that it ought to serve as a Bankers' Bank, not only in the presidency towns but also at its various branches, avoiding competition with other local banks either in the matter of deposits or in the matter of advances. It should institute Clearing Houses[4] and lend through those banks rather than do it directly. The spirit should not be one of jealousy and rivalry, but one of cordiality and friendship.

3 The question whether he is a banker or a mere money-lender will depend not on the volume of his operations but on the fact whether he does or does not trade with other peoples' money.

4 A few years ago, when the Charter of the Bank of France was renewed, it was not only provided that 12 new branches, 25 subsidiary branches and some special offices must be opened within 12 years, but it was also laid down that the Bank was to act as a Clearing House for local bills and local paper issues, in order that the Bank might really serve as a Bankers' Bank, arranging for credit facilities throughout the country.

Question of State Bank.

It has been suggested that the best way to develop Indian banking is to convert the Imperial Bank into a State Bank or to start an independent State Bank, to which will be entrusted as a matter of course all the funds and all the banking business of the Government, including the issue of notes. The primary aim of the State Bank should be not higher and higher dividends but better and better banking facilities. The unhealthy rivalries, cut-throat competitions and the other evils inherent in the present system can be removed only by this measure. It may be pointed out that the greater portion of the working capital of the Imperial Bank as at present constituted is contributed not by the shareholders, who have been receiving a steady dividend of sixteen per cent. year after year,[5] but by the Government,

[5] Compare with it the following regulations for the payment of dividend by the Federal Reserve Board:—"The stock-holding member banks are entitled to receive an annual cumulative dividend of 6 per cent. on the paid-up capital. The balance of the net earnings of each Federal Reserve Bank has to be paid into a surplus fund until that fund amounts to 100 per cent. of the subscribed capital stock of the bank. Thereafter 10 per cent. of the net earnings are paid into the surplus fund, and the remaining 90 per cent. are paid to the United States Government as a franchise tax. . . " League of Nations: *Memorandum on Central Banks,* 1913 and 1918—1923 (Geneva, 1924), p. 372.

There are similar provisions for the South African Reserve Bank, which is a private institution:—"From net profits a cumulative dividend at the rate of 6 per cent. per annum on the paid-up capital is paid out to the shareholders. The surplus is to be allocated to the reserve fund until it equals 25 per cent. of the

directly in the shape of its own deposits and indirectly in the shape of other deposits, which would have gone elsewhere in the absence of its prestige as the banker to the Government. The opening of new branches, attended by some possible loss at the start is regarded as an inadequate return for the huge interest-free deposits secured by reason of the Bank's connection with the Government. Arrangements for training Indian youths in banking on an adequate scale; for an Indian Institute of Bankers holding examinations and granting diplomas; for an Indian Bankers' Association discussing bank-

paid-up capital. Thereafter, until the reserve fund is equal to the paid-up capital, one quarter goes to the Government, and the remaining quarter—provided that it does not exceed 4 per cent. on the paid-up capital—to the shareholders. If that quarter exceeds the amount needed to pay the additional 4 per cent. dividend, the excess falls to the Government. When the reserve fund is equal to the paid-up capital, the surplus resulting after payment of a 10 per cent. dividend to the shareholders goes to the Government." *Memorandum on Central Banks*, p. 360.

The recently constituted Central Bank of Chile has also laid down similar provisions for the allocation of dividends. "Cumulative dividends will be paid to stockholders at a rate not to exceed 8 per cent. on the paid-up capital. Out of any remaining profits additional dividends up to 12 per cent. may be paid or a dividend reserve maintained, but an amount equal to that so used must be paid to the Government as a franchise tax. If any profits still remain, they will be divided, 75 per cent. to the Government as franchise tax and 25 per cent. to the stock-holders."—*Financial News*, January 11, 1926.

If the Imperial Bank of India is vested with note-issue, similar provisions will be all the more necessary.

ing problems; or local Clearing Houses Associations deciding on joint action in times of crises;—all these may be done more effectively under the auspices of a State Bank than of the Imperial Bank under its present constitution.

Need for industrial finance.

But we must not make a fetish of the State Bank, which cannot, as many of our writers seem to believe, remove all the ills that Indian banking is heir to. The insistent public demand for long-term accommodations cannot be met by Commercial Banks, even with a strong State Bank at their back. Lock-up advances may be made only by Industrial Banks or by Agricultureal Banks or by similar credit institutions, properly organised for the purpose. It is too often forgotten that the value of the security offered is not the only consideration with a prudent banker when he grants loans, cash credits or overdrafts. He has to remember that he is lending out money, part of which at any rate is withdrawable on demand or at short notice. He cannot, even if the security is undoubted, finance long-term advances with short-term deposits. Yet this obvious principle is not recognised by the infuriated customer, who takes the rejection of his loan proposal as a reflection on his financial integrity!

It will not be proper however to dismiss this merely as the unjust criticism of an uninformed public. Early European bankers were faced with similar clamours for short-term accommodations for foreign trade and for currency in the convenient form of notes, which were beyond the scope of indigenous banking. They did not ignore these demands but displayed considerable initiative and enterprise in rearing up Commercial Banks on modern lines to supply the needs of business men. Shall we not take a leaf out of their book and try to arrange for industrial finance, by attracting long-term deposits for making long-term advances? It is true that it is an old familiar problem, which has not yet been solved even after elaborate discussions in numerous reports, speeches and despatches both official and non-official. But the difficulties are not minimised by delay. The Micawberian policy of waiting for something that never turns up is not a particularly brilliant financial policy.

Example of the pioneers.

The problem in a nut-shell is this. You attract money and invest it in bricks and mortar, plants and machinery. The lender however looks upon it as a deposit which he may have back when he

Difficulties of industrial investment.

pleases.[6] What is the remedy? The investor must be given facilities for turning his investment into cash when he thinks it necessary to do so. Secondly, he must feel secure of his investment in order that he may not be tempted to realise it in haste in a panic. If Indian capital is shy, there is all the greater reason for ready realisability and unimpeachable security,—for better organisations and more up to date methods.

The investment of industrial capital may

[6] This practice is "historic," but the evil has been aggravated in recent years. Not only working capital but also fixed capital in an increasing measure has been obtained of late through deposits in this way. Secondly, the crisis following the "war boom" has severely shaken the confidence of the investing public. In the course of his speech on the occasion of the opening of the Calcutta Office of the Central Bank of India Ltd. on July 24, 1924, the Hon'ble Sir Basil Blackett lucidly explained the consequences of this evil practice in the following words :—"So long as it runs the risk of a sudden demand to repay deposits, an industrial concern, however well managed and however adequate its rates of profits, may be forced to close down by some unforeseen monetary development leading to a general demand on the part of their depositors for the return of their money. The habit of using short deposits to provide capital for industrial concerns has the further disadvantage that it restricts the supply of good industrial securities—shares, preference shares, debentures—available for the ordinary investor and unduly narrows the market for such investments. * * * An industrial concern which is taking considerable sums on deposit is really doing banking business of a kind for which it is not equipped and in which it is not experienced. * * * Finally, the losses which must occur in a crisis or a panic owing to money lent on short deposit being locked up in fixed capital assets, must tend to frighten many Indians, both from investing in industrial shares and from putting their money on deposit with a bank or any one else at all." * * *

take two forms, *viz.*, shares and debentures. The possibilities of the second form have not been fully explored in this country.

Development of debentures.

If debentures secured by a mortgage of sound industrial properties are freely available, much of the Capital, which is now remitted abroad will be invested in India, *e.g.*, the funds of foreign Insurance Companies.[7] At the present time, convenience no less than safety attracts investors to Government securities. Deventures are quite convenient instruments; they are safe, if the industrial concerns themselves are safe. There is no reason why they should not prove to be as popular a form of investment as Government securities.

As regards shares, their popularity mainly depends on their ready realisability. The present organisation for this is quite defective. There is a considerable volume of dormant capital in the *mofussil,* which was successfully utilised during the War for the various War

More and better Stock Exchanges.

[7] In their *Money and Money Market in India* (p. 369), Messrs. P. A. Wadia and G. N. Joshi have estimated the funds of foreign life offices alone, available for investment every year, at Rs. 3 crores. At the present time Indian Life Offices invest the bulk of their funds in Government Securities. A part of this at any rate may be diverted to debentures without any difficulty. There are also the funds of Fire and Marine Insurance Companies.

Loans.[8] Stock Exchanges should therefore be opened in as many centres as possible.[9] Public Debt Offices should also be opened in those places because Government Securities form an important portion of the securities dealt in at the existing Stock Exchanges. As a safeguard against improper speculation and also as a revenue measure, the system of transfer in blank, *e.g.*, that in vogue in Calcutta, should be declared illegal. Arrangements for transactions in smaller lots should be made, for these are generally speaking, genuine investments.

Investment Trusts.

It must be remembered however that Stock Exchanges thrive best at places, where there are important industries, about which accurate information may be locally obtained for successful investment. In other cases, it is possible, although not very convenient for an investor to operate in any of the existing Stock Exchanges from a distance. With the exception of Cawnpore, there is probably no place in India where a Stock Exchange may be immediately successful in the absence of other facilities for in-

8 This experiment was really tried as long ago as 1796. See pp. 179-80 *ante*.

9 The report of the Company Law Amendment Committee of the British Board of Trade (Cmd. 2657) rightly condemns "share hawking". If no Stock Exchanges are opened in the *mofussil* and no information is available to prospective investors, losses consequent on frauds and misstatements must continue.

vestment. *Pari passu* with the development of Stock Exchanges. therefore, Investment Trusts should be organised. A man with only Rs. 500 or Rs. 1,000 cannot distribute his investment in different classes of shares, *e.g.*, in cotton, tea, coal and jute, or in campanies operating in different parts of the country. An Investment Trust can take charge of small investments like these and by distributing the funds widely it can minimise the risks of failure.

Caveat emptor.

There remains the question of creating confidence among investors. For this the principle of *caveat emptor* hitherto followed in Company flotations must be abandoned. Stringent measures should be taken against unscrupulous promoters, who catch the unwary public with alluring prospectuses, and dishonest directors, who so far forget their position as trustees of the shareholders as to rob the concern for their own benefit or for the benefit of their friends.[10] The report[1] recently issued by the Company Law Amendment Committee appointed by the British Board of Trade in January, 1925 draws pointed attention to the evils of "abridged

[10] It may be recalled in this connection how Steuart proposed to have "the whole property in India of . . . directors" of his bank "pledged . . . as an additional security for their good administration." See pp. 55-56 *ante*.

[1] Issued as a White Paper, Cmd. 2657.

prospectuses" and dishonest management. In India the Managing Agency system appears to have outlived its usefulness and often puts a premium on fraud.[2] The great disparity among author'sed, subscribed and paid-up capitals should be checked.[3] In any case, a minimum paid-up capital should be insisted on before the commencement of business.[4]

Industrial Banks.

Reference has already been made to debentures through which the bulk of industrial capital is proposed to be attracted. The debentures may be issued by the industries concerned, or by properly organised Industrial Banks. These Banks may underwrite the shares of new companies and thus assist their flotation. To achieve this end, Dr. Gilbert Slater has suggested to the External Capital

2 Protesting against the piteous wail set up by Bombay mill owners against the competition of Lancashire and Japanese goods, Messrs. P. A. Wadia and G. N. Joshi, both Bombay men, write :— "There must be something radically wrong with its management and organisation. * * * There is the amazingly unwise system of appointing agents who charge a heavy commission not on profits, but on the outturn."—*Money and the Money Market in India*, p. 398. Similar complaints against the Managing Agency system of Calcutta jute mills are frequently heard.

3 This is all the more necessary in the case of credit institutions like banks. Keynes in his *Indian Currency and Finance* (p. 232) has suggested that the stamp duty should be proportioned to the nominal capital to minimise the abuse. He quotes glaring instances in his support.

4 Under the Canadian law, there must be a minimum subscribed capital of $500,000, half of which must be paid up before any bank may commence business. There is a similar provision in Section 5140 of the Revised Statutes of the U. S. A.

Committee "the development of Indian Joint Stock Banking by the adoption of methods similar to those employed in Germany by the 'D. Banks'—the Deutsche, Dresdner and Disconto Gesselschaft."[5] But the Industrial Banks may not be able to attract sufficient funds at the start. The debentures issued by them should have the backing of the Government under suitable safeguards, if necessary as suggested by some Indian writers.

Reason for State aid.

It may be asked why State credit should be pledged in this way. But is a policy of discriminating protection for the development of manufactures consistent with a *non possumus* attitude with regard to the organisation of the credit resources of the country? If State aid to industries is the accepted policy of the Government, should not arrangements for capital be made at the same time in order that industrial development may proceed apace? Finance is at present a greater necessity for industries than transport, which has been developed at such a heavy cost. Is not then a little risk for attracting industrial capital entirely justified? It must not be forgotten that any possible loss to the Exchequer at the start will be returned many times over with the development of industries and augmentation of the national dividend.

5 There is a fourth group of 'D Banks,' *viz.*, Darmstaedter.

Practical difficulties.

But theoretical justification is one thing and practical success another. It may be seriously questioned if the time is ripe for the immediate establishment of Industrial Banks in India either by private efforts, pure and simple, or with State aid. The industrial success of England and America was not due to Industrial Banks as in Germany but to the development of credit in other ways. At the present time, long-term deposits at sufficiently low rates of interest are not available in India. The Industrial Banks will thus have to depend at first, mainly on their own capital supplemented by the money that can be borrowed against debentures issued by them. Their resources will not therefore be sufficient for some time to come to finance different classes of industries at different places, so as to distribute the risks as far as possible as in an Investment Trust. Again, if debentures are to be used for the purpose of raising money, why issue them through Industrial Banks and not directly by the industry concerned, so as to avoid unnecessary cost? The mere fact that a debenture is issued by an Industrial Bank will not add to its security, unless the Bank itself has sufficient capital and commands undoubted credit.

It has been seen that the early European

banks took steps for *mofussil* finance as far as they could. That was for purchases at various *aurungs*. At the present time, the same need for *mofussil* finance is there, partly for moving the crops, but mainly for agricultural improvements. The latter involves lock-up advances, which are beyond the scope of Commercial Banks or even of Co-operative Credit Societies, which must therefore be remodelled. If the primary societies are to supply capital to the *ryot* and the small landholder, on a much more liberal scale than at present, for permanent agricultural improvements, *e.g.*, for consolidation of small and scattered holdings, buying improved ploughts, etc., they must be supplied with fresh funds which are not withdrawable on demand. Similarly, the larger landholders require loans, which are beyond the ability of rural banks, as at present constituted, although they may be productive of much economic good.

Agricultural finance.

Apart from these loans for the purpose of development, there is also the question of alleviating rural indebtedness. Some progress has no doubt been made by Co-operative Societies in this direction, but much remains to be done. In the course of his evidence before the Chamberlain Commis-

Rural indebtedness.

sion, in 1913,[6] Sir Daniel Hamilton thus described the pitiable position of the Indian *ryot*, which is unfortunately as true to-day as it was then: "If the producer has to pay anything from 25 to 100 per cent. for his finance, the inducement to produce is wanting; for it means that all he makes over and above his bare living goes to his creditors. The secret of successful industry is to buy your finance cheap and to sell your produce dear. The Indian buys his finance dear and sells his produce cheap. His creditor generally fixes the price of both. The *ryot* feeds the financier in the fat years and the Government feeds the *ryot* in the lean. Trade flourishes on the labour of a bankrupt people, for three-fourths of the people of India are unable to pay their debts."

Land Mortgage Bonds.

What is the remedy? For a remedy must be found. The resources of the Co-operative Credit Societies must be augmented with long-term deposits[7] in order that they may lend money to the *ryot* much more freely than at present for

[6] Appendix XVI, Vol. I, p. 524.

[7] It may be urged that this is against the fundamental principle of co-operation, for capitalism and co-operation cannot go together. But this is a purely academic objection. In this early stage of the movement, there must be outside help and outside guidance. The Registrar of Co-operative Societies is vested with large powers under the Act advisedly, although there is no doubt that it militates against the principle of co-operation.

paying off his debt to the *mahájan* or *sowcár*. At the same time arrangements must be made in order that the *ryot* may pay off his loan to the Co-operative Credit Societies in easy instalments, carrying a low rate of interest. The problem is therefore the same as for industrial capital, and the same solution is possible. A convenient form of instrument readily realisable must be developed and the agency through which it may be issued must be organised. It is common knowledge that in the permanently settled parts of India, land is the most popular form of investment next to Government securities. There is no reason why this capital should not be forthcoming for investment in Bonds supported by a mortgage of landed properties. As a matter of fact, a practical banker like the late Sir W. B. Hunter considered the accumulation of funds by means of Land Mortgage Bonds quite feasible. That was years ago when the shyness of Indian capital had not been broken. We are in a better position now.[8] There should therefore be no great difficulty in finding money for investment in these Bonds, nor in turning them into cash, specially if Stock Exchanges are set up at important centres of India as suggested above.

[8] There has been in recent years a noticeable increase in the total clearing figure, in post office savings bank balance, in the holding of postal cash certificates, etc.

There remains the question of a State Land Bank. On principle it is entirely justified. The Government have recognised their responsibility for bettering the condition of the *ryot* by instituting the Ministry and Department of Agriculture, by organising Co-operative Credit Societies and by accepting responsibilities under Acts like the Land Improvement Loans Act and the Agriculturists' Loans Act. Agriculture is the most important industry of the country. State aid to industries will be meaningless if assistance is given to manufacturing industries only, and not to agriculture. All this may be conceded, but the practical difficulties remain.

State Land Bank.

For, in this case, as in the case of an Industrial Bank, there must be adequate capital and long-term deposits at low rates of interest for the success of the institution. Apart from this, until arrangements are made for the absorption of landless labour in new industries and in intensive cultivation according to modern methods, any forcing of the pace by too easy an agricultural credit, dragging the *ryot* away from his small and possibly uneconomic holding, is bound to create a social unrest of the first magnitude. The example of countries like France, U. S. A. and Great Britain cannot help us, for the conditions are wholly dis-

Practical difficulties.

similar. In the opinion of the Bombay Chamber of Commerce, education on a large scale should precede the establishment of Land Mortgage Banks in India.[9] "Even in America where they have been highly developed, they have been known to take advantage of the credulity of the agriculturist."

Funds for moving the crops.

Whether the establishment of a State Land Bank or private Land Mortgage Banks is a feasible proposition at the present time or not, it must be remembered that apart from long term agricultural loans, there is a crying need for short period funds in the *mofussil* for moving the crops. Care must also be taken to see that these funds return to the ports for financing the export bills as soon as possible. In other words, there should be an increase both in the amount and the velocity of circulation of loanable funds in the *mofussil.* Various measures have been adopted by the Government from time to time, *viz.*, issue of emergency currency against *hundis*, issue of additional currency against sterling securities in the Paper Currency Reserve and placing of treasury and currency chests side by side in the *mofussil* for facilitating transfers.[10] But there is scope for

[9] *Capital,* May 6, 1926, p. 1032.

[10] These expedients and their effect on the Money Market are discussed in the author's article on *Seasonal Stringency in the Indian Money Market and the Remedy* published in the *Bankers' Magazine,* London, in October, 1924.

private action also. If branches are opened by Joint Stock Banks in the *mofussil*, freely discounting the bills on the presidency towns in respect of crops despatched from the place, there will be an immediate improvement in the situation.

Position of indigenous credit instruments.

But here also the assistance of the Government is needed, for there must be negotiable instruments before the branches may discount them. Much of the trade in the *mofussil* is carried on through the medium of indigenous instruments, which are not touched by banks at all. They will remain *pariahs*, so long as they are not recognised as negotiable. We saw how in 1802 negotiability was conferred on instruments, which were, strictly speaking, not negotiable. This liberal attitude, so noticeable a feature of English law, did not find favour with the latter day administrators of this country. The Indian Negotiable Instruments Act is Indian only in name like many other legislative achievements of the Government of India. It ignores indigenous instruments altogether. Not standardised by law, they are at present bewildering in their diversity.

Need for standardisation.

Some combine a bill of exchange with an insurance policy, *e.g.*, *Jokhmi hundis*. Some others,—and these are the nearest approaches to modern bills of exchange,

—contain quaint salutations and absurd complications, quite out of place in a commercial instrument, which should be as simple as possible. The present case law on *hundis* makes the confusion worse confounded sometimes going counter to well-established mercantile custom. In the course of his address before the Delhi University in November, 1925, the Hon'ble Sir Basil Blackett made a most useful suggestion about "a standardised bill of exchange printed on Government stamped paper both in England and the principal commercial vernaculars or at least the principal commercial vernaculars of particular provinces, with blank spaces for the names of the drawer and the acceptor. . . . It would be a bearer bill of exchange and it would be definitely laid down in the Negotiable Instruments Act that it could not be made payable to order any more than a Government currency note."[1]

Importance of banking instruments for banking development.

The importance of this measure cannot be over-estimated. As already pointed out, the development of credit instruments will bring about the development of of credit organisations and

[1] Unless a bill of exchange is payable to bearer, its circulation becomes strictly limited in a country like India, where there is such a multiplicity of scripts. It is not enough therefore to declare an instrument as negotiable; its bearer character must not be impeached in any way. Statistics, so far as available, show that fully 90 per cent. of the *hundis* are payable to bearer.

greater cohesion among the component parts of the Money Market in India. If, as has been suggested, the Imperial Bank has to tender not *hundis* discounted by it for its own customers, but Bank Acceptances or Bank Indorsements rediscounted by it, for the issue of emergency currency (which is now out of the question on account of the scarcity of good negotiable instruments available to banks), a regular discount market will gradually be established and the Imperial Bank will be able to exercise as effective a control over the Money Market as the Bank of England does. This will enable the banks to carry on with much slenderer cash balances and much heavier portfolios of bills with perfect safety, for bills will then be a much more liquid investment than at present owing to the provision for rediscounting.

Spread of education.

But all this presupposes education on the part of the people, which is at the very root of the matter. What is the good of standardising banking instruments, if people can neither read them nor use them? Of what earthly benefit is extension of banking facilities, if people cannot make out their cheques nor read their deposit receipts? We saw the difficulty experienced by the early European banks owing to the limited number of people who knew English. We also saw how they tried to reach a wider class by pub-

lishing important notices and reports in the vernaculars of the provinces. The position is equally unsatisfactory now. The systematic neglect of the secondary services of the State is now recoiling on our head. What is wanted now is a spirit of reckless determination both by the people and by the Government for fighting this appalling illiteracy of the people.[2]

Expeditious process for bank suits.

Apart from these indirect measures for the development of banking, some direct measures may be suggested. Law's delay is everywhere proverbial, but in India the delay is scandalous and often amounts to a denial of justice. It ought to be seriously considered whether banks should not be given special facilities to realise their dues by a more expeditious process through the court than at present, on the lines laid down for properties administered by the Court of Wards or for debts due to the Co-operative Credit Societies. For, if as suggested below, there is an effective control on all banks, this summary power will not be abused. When a bank is found to make an improper use of this privilege, it may be withdrawn without any difficulty.

Another hardship about which constant

2 The Indian *ryot* carries "a mountain of debt on one shoulder and a mountain of illiteracy on the other"—Sir Daniel Hamilton. The two burdens must be simultaneously removed.

complaint is heard is the stamp duty on cheques. There is no doubt that it considerably detracts from the popularity of cheques among small depositors,—exactly those people who are sought to be approached by an extension of banking facilities. As a member of the Central Government, the Hon'ble Sir Basil Blackett has reminded the public that the revenue from this source is provincial.[3] As a member of the Central Government, he should also remember that the abolition of provincial contributions would enable the provincial governments to view this loss of revenue with equanimity. The real difficulty however is not the loss of revenue but "the undesirability of encouraging the issue of cheques for very small amounts, with additional complications in the matter of clearing." This difficulty must be faced, if small capitalists are to be initiated into methods of the economic use of capital. It is a truism that idle money means idle manhood. No price is too great to pay for the mobilisation of the money resources of the country and the increase of the national dividend.

Stamp duty on cheques.

The question of taking some expeditious action against the panic-monger so as to stop his mouth before an incalculable mischief is done by him, has been raised by

Action against panic-mongers.

[3] See his speech delivered at Delhi University in Nov., 1925.

the Managing Director of the Central Bank of India on more than one occasion and his proposal has been supported by a section of the Indian press and by some public men.[4] It is true, as stated by Lord Avebury that "the modern credit system is an inverted cone resting on an apex of gold." It is also true as stated by F. W. Bain that "the cone is a spinning top, the point alone on which it spins being of gold, the overhanging body consisting of paper credit. Confidence is the whipping which keeps the top revolving." But this confidence is created not by drastic action against panic-mongers, but by honesty and efficiency in the management of banks. It may be recalled in this connection that the first bank on modern lines in India, the Bank of Hindostan, in spite of its novelty never applied for action against credit-wreckers, even when there were several runs on it.

Need for banking control.

On the other hand, it should be remembered that it is not enough for a bank merely to carry on business on sound lines. The public must be convinced that the business *is* being conducted on sound lines. Even if a failure is averted, a "run" dislocates the work of a bank. Public confidence must therefore be maintained throughout the bank's

4 See Raja Rishee Case Law's memorandum to the External Capital Committee.

career. This brings us to the question of Government control of banking for creating confidence among investors and depositors and also for weeding out undesirable institutions. The long extracts from the Plan of the General Bank of India, which was at its start an ordinary Joint Stock Bank with limited liability show with what meticulous care banking was controlled by the Government of the time. There is however nothing at present, apart from the provisions of the Co-operative Credit Societies Act and the Imperial Bank of India Act, to regulate banking, which is governed like all other joint-stock enterprises by the Indian Companies Act. This policy of *laissez faire* in banking has injured credit as much as the policy of *caveat emptor* in company flotations.

Co-operative Societies Act and Companies Act.

The Co-operative Societies Act was passed in 1912 and the Indian Companies Act in 1913, but there is a world of difference between the two. Under the former, very large powers of supervision and control are vested in the Registrar, although they are incompatible with the basic principle of co-operation. The Registrar of Joint Stock Companies, on the other hand, is practically a recording officer, merely entrusted with the tabulation of returns, which are received by him. The only executive power given to him is defined by section 137, which

empowers him to call for supplementary information or explanation. If this is regarded unsatisfactory or if this is withheld by the company, all that he can do is to report the matter to the Government. His functions therefore are merely to secure information. But this is an inadequate check from the point of view of shareholders and in the larger interests of the public who may have anything to do with the company. For a credit institution like a bank, which is debtor to the public for large amounts, more rigorous regulations are clearly necessary.

Good laws or good bankers?

While much can be said in favour of the wise maxim of Hartley Withers, *viz.*, it is "not good laws but good bankers that produce sound banking," unfortunately we have at present nothing but a Hobson's choice. If we do not desire to have banking regulated through "good laws" we would have no regulation whatsoever, not being provided with "good bankers" either. It is clear therefore that while earnest attempts should be made to impart banking education to Indian youths,—theoretical through evening classes and practical through a system of apprenticeship,—an effective control over banking by the Government is at the same time necessary. The tragic failure of the Alliance Bank of Simla is a constant reminder of the perils of unregulated banking.

Its highly paid European staff with no less technical knowledge and experience than the employees of other European banks could not prevent the gross mismanagement of its funds which ended in its overthrow. Not that there was no efficient audit, for the auditors were a firm of Chartered Accountants enjoying the highest possible public confidence. If these proved insufficient to prevent the failure of a bank of long standing, how great is the necessity for the regulation of smaller and possibly less efficient banks.

Lesson of history.

The instinct of self-preservation although a primary motive could not avert the failure of the Bengal Bank which was run by confirmed cheats like Rider and Henchman on the principle of misappropriating other peoples' properties. A loan of Rs. $1\frac{1}{2}$ lacs proved more than sufficient to save the Bank of Hindostan, but a loan of Rs. 5 lacs could not reopen the doors of the Bengal Bank. Its method of doing business was so loose that nothing could be done for the settlement of claims of the creditors for months together until the return of Rider from England. It is evident that an inspection and audit in the interests of the depositors and note-holders at an early stage could have prevented or minimised the abuses, which were responsible for the failure of the Bank.

To regulate banking is to regulate its four

main functions, *viz.*, the issue of notes, the acceptance of deposits, the granting of loans and the discounting of bills. In a country like India where communication is difficult and where the people are mostly illiterate,[5] notes are much more important than cheques. There is also the obvious danger of unduly forcing cheques on people who are not accustomed to their use.[6] Notes must therefore continue to be the most important form of credit currency. There should be strict rules regarding their issue, modified if necessary from time to time in the light of experience gained. But control is essential, whether the power of issue continues to be exercised by the Government, or, as suggested above, is made over to a State Bank, or to the Imperial Bank properly reconstituted as a Central Bank.

Note issue under most stringent restrictions.

As regards the protection of depositors, the systems in force in Canada and the U.S.A. offer valuable suggestions. Monthly returns of assets and liabilities according to

Safeguards for depositors.

5 This does not receive sufficient consideration at the hands of the Government when they introduce new note forms on the plea of convenience and thereby invite forgery.

6 The recent proposal for discouraging the cutting of notes for remittance of funds may defeat its own purpose, for it may check the circulation of high denomination notes but may not lead to a more extensive use of cheques or bank drafts. It must not be forgotten that "deposit banking never develops fully until metallic money has been replaced by paper."

a prescribed form are required to be made to the Canadian Government. Our Government also in their Commerce Department letter no. 8071 dated November 17, 1920 laid down a standard balance sheet for making monthly returns.[7] But the necessary law has not yet been passed. In the United States, National Banks have to submit their balance sheets to the Comptroller of Currency, at least five times a year, *the dates for these being not specified in advance.*[8] In addition the Comptroller is authorised to inspect the banks, calling for books and securities for as thorough a scrutiny as he thinks proper. A Government audit like this is preferable to an ordinary audit for two reasons. Firstly, the audit is absolutely independent of the management. Secondly, if it discloses any irregularity, the report may be kept confidential and the defaulting bank pulled up in time. Apart from these provisions, there are statutory safeguards requiring the accumulation of a surplus equal to a fixed percentage of the capital stock and also a contingent liability on the part of shareholders, in case the bank fails with inadequate resources. There is also the rule enforcing a fixed percentage of cash reserve against demand liabilities. This has been

[7] *Report of the Committee of the Bengal Chamber of Commerce for the year 1921*, Vol. II (Documents and Correspondence) pp. 62-70.

[8] Section 5211 of the Revised Statutes of the United States.

recommended by some writers for India.[9] This however has not succeeded in America[10] and need not therefore be copied. Not that there should not be a sufficient cash reserve but that the percentage of cash to liabilities should be determined not by statute but by the nature of liabilities and by the extent of liquidity of reserves other than cash. As pointed out by a competent authority, "the chief assurance against excessive expansion [of cheques] on the part of any single bank or banker is given by the certain demand for prompt and frequent settlement, occassioned by the voluntary establishment of the Clearing House, or by the habits of the community, but not by law."

Restriction against advances.

The most effective safeguards for depositors are however the safeguards against improper advances either as loans or as discounts. The Canadian banking law recognises this by imposing stringent provisions for loans. For instance, section 64 of the Act of 1890 prohibits the granting of loans on "the security or pledge of any share of its own

9 *Money and the Money Market in India* by P. A. Wadia and G. N. Joshi, p. 349. *Present-day Banking in India* by B. Ramchandra Rau, pp. 76-77, etc.

10 It is only with the establishment of the Federal Reserve System giving the much-needed elasticity to the American currency system that the periodical crises and failures have been avoided in recent years.

capital stock[1] or of the capital stock of any bank" or "upon the security, mortgage or hypothecation of any land, tenements or immovable property or of any ships or other vessels, or upon security of any goods, wares or merchandise."[2] The advances against warehouse receipts and bills of lading are hedged round with many restrictions. There are similar provisions against advances for National Banks and State Banks in America. In order that these laws may not hamper legitimate banking but merely check undesirable institutions, they are periodically revised by the Federal Governments of Canada and the U. S. A.

1 The first Benares Bank established in 1844-5 by Colonel Pew failed for this reason. See Cooke's *Banking*, p .236 *et seq*. There are other and more recent instances.

2 These provisions may appear too rigid. Regulations on the lines of the Imperial Bank of India Act, 1920, Parts I and II with suitable modifications may prove more suitable. Unrestricted operations degenerated a few Indian Joint Stock Banks so much that Mr. T. Smith felt constrained to make the following remarks in the course of his paper read before the Sixth United Provinces Industrial Conference at Cawnpore in April, 1912 :—"An institution has no right to the name of 'bank' which undertakes coach-building, *ekka* repairs and medical attendance, the manufacture of soap and oil, and 'certain thing,' from machinery, or engages in trade or manufacture of any sort, even though it be, as I saw it stated with great comprehensiveness in one prospectus, 'the leasing or hiring or purchasing of all commodities and substances which can from the subject of purchase or sale.' "

In some other cases, legitimate business was carried too far. Dealing in bullion is a safe banking business. But the Indian Specie Bank attempted a corner in silver and had to close its doors in consequence. The failure of the Bank of Burma in 1911 was due to the lending out of about one-third of the entire working capital to a single firm in which the directors were interested.

In our zeal for banking reform we must not imitate whatever restrictions we find in foreign countries. Each provision should be examined in the light of our own experience and in reference to the particular type of banking sought to be regulated. The extent of Government control for a State Bank, for a properly constituted Central Bank, for a foreign Exchange Bank or for an Indian Joint Stock Bank would be naturally different. But the present policy of the Government having nothing to do with banks although they have everything to do with the Money Market of the country must be changed. It must not be forgotten, however, that more depends on private initiative and efforts than on Government control, specially in the case of Indian Joint Stock Banks and indigenous bankers. But before we discuss them, let us see what reforms are possible in Exchange banking.

Need for elasticity.

It is commonly believed that the present Exchange Banks in India are financed from their Head Offices abroad and they devote these resources to foreign trade. It is not generally known, however, that during recent years they have been attracting deposits in India in an increasing degree making advances against Indian Stock Exchange securities and doing many other types of business which used to be the special

Increasing activity of Exchange Banks.

preserve of Indian Joint Stock Banks. The amalgamation of the P. & O. Banking Corporation with the Allahabad Bank shows that Exchange Banks are anxious to employ their funds in new directions. The recent tendency of some of the "Big Five" to establish connections in India through amalgamations, *e.g.*, with Messrs. Cox & Co., Messrs. King Hamilton & Co. and Messrs. Grindlay & Co., shows that the keen competition for business is driving British banks with huge resources to "fresh fields and pastures new."

Regulation of Exchange banking.

This is mainly a post-war phase. During and after the war, there was a complete dislocation of foreign trade and foreign exchanges. Banks began to employ their funds in new directions. The same process is now being continued. Unfortuntely the necessary adjustments are not yet complete, although some steps have been taken in that direction. For one thing, the cash reserve against demand liabilities in India is still too low.[3] Secondly, rupee securities in

[3] The following table is compiled from *Statistical Tables Relating to Banks in India, 1924*:—

Proportion per cent of Cash to Liabilities on deposits of the several classes of banks on 31st December each year.

Classes of Banks.	1922	1924
II Exchange Banks		
(deposits and cash balances in India only)		
(a) doing considerable business in India ...	19	20
III. Indian Joint Stock Banks		
(a) having capital and reserves above Rs. 5,00,000	20	21

adequate amounts have not been specifically charged against rupee liabilities.[4] There should be a statutory obligation to publish balance sheets showing operations in India alone, *i.e.*, Indian assets and Indian liabilities. It is true that there are some technical difficulties. But these did not prove insuperable in the case of the Tata Industrial Bank, which did as much exchange business as any Exchange Bank in India during the first few years of its life. Apart from this, in order to ensure public confidence, there should be a statutory provision for compelling Exchange Banks to train up Indian apprentices for superior posts from which at present they are rigidly excluded.[5]

More than 150 years have elapsed since

As Indian Joint Stock Banks have branches in the *mofussil,* there is less demand on their cash and they can afford to work with a lower percentage than Exchange Banks. It must also be remembered that there is "window dressing" by all banks for their closing balance sheet.

4 "Possibly Exchange Banks have already been in smooth waters longer than is for their good," wrote Keynes in his *Indian Currency and Finance* in 1913. The failure of the Alliance Bank of Simla due to the squandering of foreign resources and the piling of local liabilities at the same time should now be an object lesson. It must not be forgotten that the Alliance Bank commanded as much credit in the public eye as any of the existing Exchange Banks.

5 Under the new régime, all foreign corporations in Turkey have to take in Turks in their employ on fifty-fifty basis. The Ionian Bank was threatened with stoppage of business for failure to comply with this provision by a stipulated date.

the first European bank was established in India. Yet the foreign exchange business, which is as safe as it is lucrative,[6] has remained a closely guarded monopoly. It is as true today as when Keynes first wrote in his *Indian Currency and Finance*, in 1913, that "it would be exceedingly difficult to start a new Exchange Bank . . . except under the ægis of some important financial house already established in a strong position in India." Even small countries whose foreign trade is much smaller than ours, have a net-work of branches throughout the world for financing their foreign trade. But we have no branch of our own even in London, where the bulk of our trade has to be financed.[7] That the entire foreign exchange business of the country remains out of the hands of the children of the soil is an evil, which must be checked not simply out of empty patriotism but for solid financial reasons. It is not for nothing that the Chartered Bank of India, Australia and China was denied a foot hold in Australia, in spite of the Charter granted to it by the mother country. In India, the

Exchange Banks and Indian Money Market.

6 See the articles on *Foreign Exchange in Indian Banks* in the *Calcutta Review*, January, 1924 and on *Forward Exchange in Indian Banks* in the *Indian Journal of Economics*, January, 1925, both by the author.

7 As practically no foreign exchange business is done by the Imperial Bank, its London Office does not remove this anomaly.

evil is aggravated, especially in important monetary centres like Calcutta where Exchange Banks do not as a rule co-operate with the Indian Joint Stock Banks. It is not recognised that in helping a bank out through a crisis, other banks are guided mainly by enlightened self-interest. In the absence of a strong Central Bank, the relation between banks should be as close as possible for mutual help and co-ordinated action. An object lesson is furnished by American Clearing Houses, which perform many useful functions of common benefit, apart from the settlement of cheques. To give only one instance, the issue of Clearing House Loan Certificates, "a rudimentary analogue of the rediscounting facilities given by the great European Central Banks" is a greater necessity for India than for U. S. A. after the adoption of the Federal Reserve system. But all this presupposes a recognition of common interests born of better understanding among the members.

Discard present-day models

The worst disservice done to banking in India by Exchange Banks at the present time is the vicious standard they have set before the public. Somehow or other people cannot think of a bank except as a lofty and spacious hall, with shining counters and a large army of clerks and peons. It is not realised that the security of a bank lies in none

of these things, but in the rigorous cutting down of charges, in honesty, integrity and efficiency of management. In a vain attempt to win the confidence of the public, expenses for spectacular shows are undertaken which are not at all warranted by the volume of business.[8]

and follow the pioneers.

Can they not follow the salutary example of the early European banks, of the General Bank of India which began business in a small way in a hired "house adjoining Messrs. Baxter & Ord's Europe Shop," or of the Bank of Calcutta, which fixed Rs. 2,500 as the limit of its monthly expenses? Their successors in their own countries have followed their example with profit. As pointed out by Sir Purushottamdas Thakurdas in his address on "Present day Needs of Indian Banking" at the Sydenham College of Commerce, Bombay, in December, 1924, a small branch bank in England or Scotland requires a manager and an assistant, probably an apprentice, for its working, while a similar office in India would require a staff of about 15 persons.

8 All Clive Street knows at least two banks in Calcutta of which this is true. One reason for the failure of the Tata Industrial Bank (for the alternative to amalgamation with the Central Bank of India was extinction) was bloated charges, out of all proportion to the dwindling business, during the later years of its life.

Vicious social customs.

An equal, if not a greater measure of blame attaches to uneconomic customs of the people. A man employed as a clerk would consider it beneath his dignity to turn the handle of the letter copying machine. He would waste half an hour till a peon comes up to carry books from one counter to another. This is division of functions with a vengeance and is a fruitful source of inefficiency and waste. Recently some improvement has been effected by the example of the better educated young men who have joined banks and who are above this sort of "cheap pride." The obvious truth must not be forgotten that it is increase in the efficiency on the part of each and decrease in the total number of employees in a bank, which can secure better wages for the clerks, who are so poorly paid at present.

Difference between Exchange banking and Indian Joint Stock banking.

For, there are essential differences between exchange banking and loan-and-deposit banking, which Indian Joint Stock Banks should lay to heart. The former is concentrated at principal ports. The latter has to be carried on through a number of small offices in the *mofussil*, entailing a heavy expense in the aggregate. The former has a quick turnover; the latter is frequently troubled with lock-up advances and dwindling deposits.

It is true that the *Budlee* operation in exchange, *e.g.*, a ready purchase against a forward sale, is nothing but a loan,[9] but the period is so short that the profit is ultimately much greater than in the case of ordinary loans. It is, therefore, imperative that a policy of slavish imitation and empty show involving unnecessary expenses should be discarded by Indian Joint Stock Banks.

Playing the Imperial Bank!

As in the Presidency towns, similarly in the *mofussil*, the branches of the Indian Joint Stock Banks must not ape the local offices of the Imperial Bank. In a vain endeavour to compete in the matter of deposits and loans, the former receive only the leavings of the latter,—small deposits from small customers who have to be attracted by a high rate of interest, and lock-up advances to unsound traders, who can offer only worthless securities. To make as brave a show of their Board of Directors as the Central Board, or at least the Local Boards, of the Imperial Bank, some "Banks" in small Bengal towns constitute Directorates with big names, which however do not inspire confidence in the public mind, being mainly composed of men, who are believed to be in need of financial accommodation from the "Banks."

[9] See article on *Forward Exchange in Indian Banks* by the author published in the *Indian Journal of Economics*, January, 1925.

It is time that "the angle of vision" were changed. Encouragement should be given to lenders rather than to borrowers. Loan Offices must trade with other peoples' money, before they are entitled to call themselves "Banks." *Aratdárs*, *bepáris* and *mahájans* should be sought out, for it is they who can give business and funds. Instead of trying to be even with the local offices of the Imperial Bank, they should try to exploit them as far as possible. If spare cash is kept with the Imperial Bank, the cost of big safes, strong rooms and armed guards may be avoided. If arrangements are made for the discounting of usance bills somewhat on the lines of *Shroffee* business at the headquarters, a supply of short term funds will be immediately available. Purchase and sale of Government and Stock Exchange securities in small lots, sale of standard gold and silver bars in fractions for ornaments, and similar types of business not done by the Imperial Bank at present may be usefully undertaken.

New outlook.

At the same time, every endeavour should be made to attract deposits not by a higher rate of interest[10] but by offering better facilities.

Special features.

10 In the course of his discussion on the bank failures during 1913-15, Mr. B. Ramchandra Rau rightly points out :—"Most of these Indian Joint Stock Banks paid a very high rate of interest to the depositors. The Bank of Burma undertook to pay 6 per

There was no limit to the amount with which an account could be opened in the eighteenth century. On that principle, a smaller initial deposit should be laid down.[1] In those days, important bank notices and reports were published in English as well as the principal vernaculars. Similarly at the present time, cheques, paying-in-slip books, deposit receipts and other bank forms may be bilingual.[2] The bank advertisements, in cluding those of the Imperial Bank, now appearing in vernacular papers are so clumsily worded as to be incomprehensible to readers ignorant of English. A more simplified form, avoiding technical words should be adopted on the lines of American advertisements..[3] A judicious propaganda in verna-

cent. on deposits. . . . . In the Punjab there was a regular competition to get deposits. In order to induce several widows and orphans to deposit their money the banks paid 8 per cent. under various pretexts. They had to lend at a very high rate of interest and lending on a high rate they could not have good security. Ruinous rivalry produced by competing deposit rates forced the banks to entertain illegitimate business"—*Present day Banking in India,* 2nd edition, p. 64.

1 At the present time, the Imperial Bank of India insists on a minimum deposit of Rs. 500 for opening an account.

2 The Indian Bank of Madras has Tamil cheques.

3 A typical balance sheet is reproduced below from *Materials for the Study of Banking* by Dr. J. D. Magee, Professor of Economics, New York University (1923), p. 627 :—

"Brotherhood of Locomotive Engineers Co-operative
National Bank of Cleveland.
A Bank Statement You Can Understand.

cular newspapers for stimulating banking in rural areas has been recently recommended by the Bombay Chamber of Commerce.[4]

An object lesson.

All this requires infinite care, infinite thought and infinite patience, but these are exactly what are required for initiating small capital-

Statement of Condition at the Close of Business, October 3, 1922.

RESOURCES.

Cash on Hand and in Banks	\$2,925,245·78
This is actual currency and silver in our vaults and money on deposit with the Federal Reserve Bank or other banks payable on demand.	
Loans on Demand	\$2,266,528·27
Loans to individuals and corporations payable when we ask for them, secured by stocks, bonds and notes of greater value than the loans.	
Other Loans and Discounts	\$3,267,263·78
This is short time paper discounted for customers, payable in less than three months on the average and largely resting on stocks, bonds and bills receivable.	
&c. &c.	
	\$17,202,103·39

LIABILITIES.

Capital Stock	\$1,000,000·00
Amount invested by stockholders in the shares of this bank.	
Surplus and Undivided Profits	\$2,200,089·00
This represents amount earned from all sources to date, including interest on loans and discounts, interest on bonds, commissions, exchange and collections, etc.	
&c. &c.	
	\$17,202,103·39

[4] *Capital*, May 6, 1926, p. 1031.

ists into the methods of modern banking. A branch manager should be imbued with the zeal of a missionary, for the reward is great. "If we cater for the small man, we can develop Indian banking to a degree which may now seem almost incredible."[5] The following is a graphic account of the working of a small branch in a remote corner of Burma, which should be an object lesson[6]:—

"You find the manager with a cheque book in his hand explaining the mysteries of the cheque to a Burmese woman. She has made payment to the bank in silver rupees so covered with dirt that the metal might be mistaken for bronze. When the money is all told, a little heap of sand remains on the floor. The money has been buried in the ground, and having recently been dacoited, she has come to think that it would be safer in the bank. (A dacoity is to the bank what a fire is to an insurance company. It gives the bank an opportunity of propaganda and business). She writes well; for the standard of literacy in Burma is high. The manager notes with satisfaction that her specimen signatures are distinctive and hands her a cheque book. But before she goes, she looks enquiringly round. The manager knows that

5 Sir Stanley Reed's evidence before the Babington-Smith Currency Committee.

6 *Rural Banking in the Delta,* an article appearing in the *Rangoon Times,* Christmas Number, 1922.

look. He gets up and shows her the safe. She . . . walks out with a puzzled expression which seems to mean, 'I don't know if I have done wisely: but I have got this (she holds the cheque book very firmly) and it might be all right in *that* safe.' ".

Manager can make or mar a branch.

It may be urged that branch managers are rare who have keenness and enthusiasm, who feel an artist's delight in his work and thus invest routine and drudgery with poetry and romance. But it must not be overlooked that the success of a branch depends on the amount of deposit it is able to attract. If the only business is to bring money from the headquarters for making advances then the branch ought to be closed and the loan applications decided from headquarters, thus avoiding unnecessary charges. When Sir David Yule was elected the Chairman of the Board of Directors of the Alliance Bank of Simla, a few months before its failure, the first step he took was to close unremunerative branches. To some it may appear a retrograde measure. But the extension of banking confers benefit on the community in proportion to the development of the banking habit. It is of the utmost importance therefore to have men in charge of branches, who possess personality and character and who are able to inspire confidence among the depositors,—not mere book-keepers, who are

able to submit abstruse returns in accordance with intricate instructions from the Head Office. They ought to take an intimate interest in local affairs and identify themselves with the people. It may be recalled in this connection how the early European bankers took the lead in famine relief, in organising lotteries for public benefit etc.[7] If an uneducated indigenous banker can work through personal knowledge and personal influence, which are his main assets in business, surely a qualified branch manager with the resources of a big Joint Stock Bank at his back ought to give a better account of himself.[8]

To hold forth the indigenous Indian

7 They also promoted public lectures as will appear from the following advertisement in the *Calcutta Gazette* of November 20, 1788 :—

"Experimental Philosophy.

At the Exchange Coffee Room . . . . at half past Seven O'clock.

It will commence with the Experiments of the Leyden Phial and Electrical Battery.

* * * *

Tickets for the Course at Five Gold Mohurs are delivered at the General, Bengal and Indostan Banks

AND

Tickets for each Reading at Twelve Sicca Rupees at the Exchange."

8 As was pointed out by Bagehot, "The deposit habit is a very difficult thing to begin because people do not like to let money out of their sight without security; still more, cannot all at once agree on any single person to whom they are content to trust it unseen and unsecured. But a branch of a big city bank conducting business in their midst effectively dispels this suspicion from their minds."

banker as a model is to invite ridicule, for as many hard things are said about him to-day as in the time of the early European banking. In the words of Sir Daniel Hamilton, "What India wants is an act written not with a goose quill dipped in milk and water but with an iron pen dipped in the blood of the *mahájan.*" The obvious implication is that there must be Draconic laws directed against the *mahájan.* But is not his cruel rapacity as much a consequence of the vicious banking system as is the utter helplessness of the *ryot?* Will not usury laws and non-transferable holdings merely restrict the credit of the *ryot* and thus defeat their own purpose? Will not a lighter burden of interest or rent without the knowledge and desire for a better life make him lazy, producing just enough for his barest needs? No, it is not simply the *mahájan,* it is the whole indigenous banking system including the *mahájan,* which must be remodelled.

The whole and not a part only must be remodelled.

Far too many writers, especially ardent co-operators have riveted their attention only on the *mahájan,* ignoring the other component parts of the system. If the village *mahájan* acted with his own capital or with deposits attracted locally by him, he could be regarded as

Complexity and vastness of the system.

independent of the others. But seeing that he discounts his papers with a *shroff* or a *shroff's* local representative; that he acts as the *shroff's* agent for the purchase of crops or for the sale of cloth, salt etc., and that he is mainly financed by the *shroff*,—he ought to be regarded as a mere link in the chain. The whole system is extremely complex, the mutual connections among the different parts being not always in public view.[9] It must be remembered that in a vast country like India, where there are so many middle-men between the producer and the consumer, between the producer and the exporter and between the importer and the consumer, the inland trade must be many times the volume of the foreign trade,—not less than fifteen times as calculated by some writers. According to this estimate, the inland trade aggregates above Rs. 9,000 crores a year. A portion of it is done in cash. A much smaller portion is carried on through the help of Joint Stock Banks. The rest is entirely done by the much-maligned indigenous bankers through their "wretched, crinkled, scrawled-over, blotchy, frowsy pieces of paper,"[10]—the hundis and other equally quaint indigenous instruments. The last Census Report "shows 9,93,000 persons as being dependent on banks

[9] *Babington Smith Currency Committee*, Appendix, pp. 13-14.
[10] Lloyd George's patriotic description of bills on London.

engaged in the business of credit, exchange and insurance, and 2,43,000 persons in brokerage, commission and export."[1] These figures indicate that a large volume of banking business is being carried on by indigenous bankers, although through institutions which can hardly be called banks.

Amateur banking widespread in India.

Paradoxical as it may seem, banking through banks is extremely rare in India. We have already seen how Indian industrial concerns have been carrying on banking on their own account from very early times. It is not generally known, however, that this habit is widespread even among present-day European firms. Writing on "India's Amateur Banker," Mr. George Cecil

1 These figures were quoted by the Hon'ble Sir Basil Blacket, K.C.B., in his speech before the Delhi University in refutation of the statement so often made about the rudimentary state of banking in India. But the fact remains that India is very poor in banks, however rich she may be in bankers. In fact the total deposit of all the banks in India put together is much less than the deposit of any of the "Big Five," as will appear from the following table :—

Paid up Capital, Reserves & Deposits as on December 31, 1924.

Bank.	Amount.	Taken from
Imperial Bank of India, Exchange Banks and Indian Joint Stock Banks	Rs. 2,10 crores	*Statistical Tables Relating toBanks in India,* 1924.
Midland	£382 million	*Statist (British Banking Supplement)* May 16, 1925.
Lloyds	£366 „	
Barclays	£325 „	
Westminster	£292 „	
National Provincial ...	£275 „	

describes his operations in the following words[2]:—"Regarded as a poacher, sometimes as a *pariah*, by all who have to do with the leading banks, he blissfully goes his way and smiles blandly—particularly when the half-yearly audit results in a satisfactory balance sheet. 'Let the scoffers scoff, mine is the victory.' . . . The amateur contingent includes European mercantile firms, shopkeepers and private individuals—of limited means and unlimited leisure. 'Why,' asks the bank manager 'does not the cobbler stick to his last?' In a sense, the poacher does, for he accepts money (in current account or on fixed deposit) for the justifiable purpose of extending his business. The proprietor of a stationery establishment argues that he can turn the capital thus acquired to excellent account; and the wine merchant entertains the same views. Drapers, general store-keepers and other tradesmen argue to this effect, and, to attract clients, they offer exceptionally high rates of interest. Indeed, a general merchant, a long time since, allowed 7½ per cent. on twelve month's fixed deposits. . . ."[3]

2 *Bankers' Magazine*, (London), August, 1925.

3 Keynes also writes, "there is of course much business of a semi-banking character transacted by financial and mercantile houses, some of them of the first magnitude, with establishments both in India and London."—*Indian Currency and Finance*, p. 208, footnote

These European firms are carrying on the traditions of Agency Houses which combined banking with other business to the detriment of both. We saw how the Bank of Hindostan came to grief because it was an appendage to the firm of Messrs. Alexander & Co. The indigenous bankers have unfortunately not profited by this example and invariably mix up trading with banking. They do not realise that there is an essential difference between a dealer in goods and services and a dealer in money and credit; that "adventure is the life of commerce but caution if not timidity is the essence of banking." Even if the banking business is treated as quite separate from the trading business and even if necessary arrangements are made for liquid reserves against demand and "near-forward" liabilities independently of the commodities of trade, any rumour about a possible loss in the trading business will react unfavourable on the banking business. On the other hand, any demand on the part of the depositors to withdraw their deposits on account of, say, a general tightness in the Money Market, will affect the trading business adversely, although it might not have been in a better position at any time before. If, however as is generally the case, trade *in* other people's money degenerates into trade *with* other

Trading incompatible with banking.

people's money,[4] that is to say, if the banking business finds capital for the trading business, they fall united, although they might have stood divided. However flourishing the trading business may be, however satisfactory its rate of profit, its ruin cannot be averted in the face of a forced sale consequent on a "run" on the banking business.

Historical reason for this practice.

It may be asked how this pernicious system came to have such a firm footing in the soil of India. As we have seen, the main business of the most influential indigenous bankers in early times was transmission of revenues and advances to the Government and the nobles. The principal source of revenue, the land revenue was partly in kind,[5] but the disbursements, *e.g.*, payment to the standing army had to be made in cash. The bankers to the Government had therefore to be dealers in commodities as well as in money and credit.[6] Even when payment in cash superseded the payment of

[4] The Government evidently look upon them in the same light, for the same Act has been prescribed for both,—the Indian Companies Act.

[5] Even so late as 1669 A.D. payment of revenue in kind was not entirely done away with. The seventh article of the *Farman* of Aurangzib to Muhammad Hashim, *diwan* of Guzrat, issued in 1079 A.H. (=1668—1669 A.D.) runs as follows :—"You may change fixed revenue (*muazzaf*) into share of crop (*muquasima*) or *vice versa*, if the *ryots* agree to it : otherwise not."—*Mughal Administration* by Prof. Jadunath Sarkar, 2nd edition, p. 203.

[6] Cooke's *Banking*, p. 12.

land revenue in kind, the revenue-farmers and their successors, charged with a fixed payment to the Government, irrespective of what the land might produce, had to borrow from the indigenous bankers against the security of crops of a later year. Realisation of debts granted in lean years thus necessarily involved trade in grains in fat years, and both had to be undertaken by the indigenous banker,—in the cities on account of revenue farmers and in the villages on account of the *ryots*. With the disruption of the Mughal empire, the political influence and the Government business of the indigenous bankers naturally disappeared, but in those days of general insecurity, people were obliged to deposit most of their savings with these bankers as before. The only use that they could make of these monies was trade on their own account. For there was no foreign trade to be financed by them but the trade itself to be carried on by merchants, independently of them, as was in vogue in other countries. Nor was there an industrial revolution in India, calling for short-period funds and gradually rearing up a Money Market with banks, bill-brokers, discounting and acceptance houses, carrying on diverse functions,—all helping trade but none encroaching on it in any way. On the contrary, multiplicity of coins and difficulties of currency during the early years of British

rule gave the bankers a distinct advantage over other traders. The agents in distant places could not only draw and honour *hundis* but also be entrusted with funds for purchases and sales of commodities. In fact, the transmission of funds was so difficult even fifty years ago that merchants used to take salt in big boats up the *Hughli* and with the sale proceeds buy seeds and grains from different centres on the banks of the river and carry them to Calcutta.[7] If trade could thus be only in the form of barter, there is no wonder that indigenous bankers found it profitable to combine trade with banking.

Present-day conditions.

It is true that some of these causes are no longer operative. But the monsoons have not changed their irregular character and have still their old knack of failing

[7] With a view to study the recent history and the present organisation of indigenous banking, the writer addressed a *questionnaire* to merchants and *shroffs* in Calcutta and the *mofussil* and personally interviewed some of them during March to May, 1925. The following account is mainly based on information gleaned in this way except where the source is otherwise indicated. It must be remembered that the practice is different in other parts of India. The writer takes this opportunity of thanking Messrs. N. L. Puri and J. C Sen (both of the Central Bank of India Ltd.) and Babus Nanilal Seth (a jute merchant of standing), Bansidhar Lohia (a *shroff* attached to the Imperial Bank) and Chhogmull Chopra (a leading practitioner in the Small Cause Court), all of whom helped him a great deal with information of their own and also put him in the way of obtaining additional information from others. Babu Choggmull Chopra has kindly revised the portion on indigenous banking and laid the writer under a deep debt of gratitude.

at intervals. The village *ryot* has therefore to be supported during the years of crop failure, then as now. There is the same illiteracy of the people, who can only choose between an indigenous banker and a hoard, the new-fangled savings banks and other modern institutions being out of the question. The present-day *shroffs* of Calcutta, who are supposed to play as prominent a part in the Calcutta Money Market as bill brokers in London, are carrying on the past traditions by employing deposits bearing interest from 4 to 4½ per cent. made by their own people in distant Rajputana, mainly widows and infirm people, who are unable to go through the formalities of a Postal Savings Bank.[8] The big Bengali *mahájans* are also financed by *gucchits* or deposits from people who know and trust them. Even in these days of Telegraphic Transfers and Drafts issued by banks of undoubted status and of Remittance Transfer Receipts issued by the Government, considerable amounts are remitted through indigenous bankers. For one thing, organised banks have not penetrated to remote places where indigenous banking alone is carried on. Secondly, bank instruments written in English can appeal only to the very small percentage of the population who know that language. In short, the

8 The higher rate of interest is not the main consideration, for the deposit rate was previously 3%, the same as Postal Savings Bank rate.

indigenous system survives in spite of its numerous defects because it fits in with the daily life of the people.

Lending *cum* Commission Agency.

But it is unsafe to rely on this, for change is now in the air. With the rapid modernisation of India going on before our eyes, the indigenous banking system must be remodelled at as quick a pace. But before we consider what changes are necessary, we must try to understand the system as it exists to day, beginning with the Presidency towns and coming down to the remote villages. To confine ourselves to Calcutta for the moment, there are very few indigenous firms which concern themselves solely with banking. Very many firms add banking to their main business, mainly for employing their funds in the slack season. This is done mostly on what is called the new *khátá pêti* system, *i.e.*, a clean overdraft or a mere book-debt, resembling the *hát chitá* system in vogue among Bengali *mahájans.* An account is opened in the name of the borrower, who agrees to pay a fixed rate of interest and to repay the loan after a stipulated period. The debtor and the creditor items are entered as in an ordinary ledger account and the interest computed on the fluctuating balance. Usually, the borrower is introduced by a broker, the subsequent transactions being

direct.[9] As it does not involve much publicity, the *khátá pêti* system is becoming increasingly popular. Lending money in this way is, however, not their main business, *viz.*, Commission Agency which nevertheless partakes of the character of banking, being essentially advancing against goods in transit. For, they buy piece goods in Calcutta on behalf of their principals in the *mofussil* on the understanding that a rebate @12% will be granted to them if payment is made before the due date, which according to custom, is 45 days[10] after the date of the purchase. They forward these goods to the *mofussil*, charging commission as well as interest varying from 6¾ to 9 per cent.[1] These rates are different for provinces other than Bengal. For instance, the consignments to the U. P. are financed mainly by *Churawallahs*, who charge a commission varying from 5¾ to 6¾ per cent., but allow the same discount of 12 per cent. granted to them by the importers of piece goods.

9 *Bengali mahájans* as a rule do not employ brokers, but carry on business chiefly with people known to them and to their friends. The *hát chitá* system is gradually dying out; rich *mahájans* now lend only against mortgages. *Mahájans* who are not so rich make clean advances to traders but seldom against *hundis*, although even fifty years ago, they used to deal in *hundis*.

10 In some cases, the period extends to 60 days.

1 Interest is quoted in the indigenous Money Market in annas per hundred rupees per mensem. Thus these rates are spoken of as 9 to 12 per cent., i.e., from 9 as. to 12 as. per Rs. 100 every month.

A second class of indigenous bankers carry on banking as a regular branch of business throughout the year. Thus they are not merely lenders but also borrowers. This dependence on deposits sometimes drives them to extreme measures, *e.g.*, to the old *khátá pêti* system, which happily is now dying out. Under that system, during the slack season, when money is almost unlendable, they had to accept deposits carrying interest from 6 to 9 per cent. from people who had helped them with funds during the busy season. These deposits were, however, withdrawable on demand and were in fact withdrawn as soon as money could be more profitably employed elsewhere with the approach of the next busy season. With the gradual rehabilitation of the indigenous Money Market of Calcutta after the post-war "crash," this compulsory deposit system has come to be abandoned.

Trading and Banking.

At present money is borrowed on the new *khátá pêti* system and also against *kalkattiáhs* and *purjás*. *Kalkattiáhs* are simply local *hundis* in vernacular, *i.e.*, bills of exchange drawn and payable in Calcutta, which often find their way to banks when rediscounted by *shroffs*. But the *purjás* that are in use in the indigenous Money Market are quite different from those that are sometimes negotiated by

Kalkattiahs and *Purjás*.

shroffs with Indian Joint Stock Banks. The latter are joint and several promissory notes signed by two parties with an engagement in a separate letter signed by the makers undertaking to pay off the loan within a stipulated period generally of 30 to 45 days. These two instruments constitute in effect a bill of exchange with a fixed due date bearing two names but with important differences. Firstly, the *ad valorem* stamp duty is avoided. Secondly, the interest has to be paid on the due date and not in advance as at the time of discounting a bill.[2] The *purjás* in use in the indigenous Money Market are peculiar documents and a blank form is given below in original with a literal English translation :—

[Original]

Uparanch hamárá gomásthá [or *jamádár*]——————*awethé jikéné* [or *játá hai jisko*] *rupayá*——————*hamáré námé likh kar déná* [or *hamaré khâte namé madké déná*]

Miti—————— *Dastakhat* ——————

Márfat dáldl ——————————

2 A number of *purjás* like these were discounted by the Tata Industrial Bank Ltd., Calcutta when the writer was the Officer-in-Charge of the Outward Bills & Discounts Department. These were paid with unfailing regularity on their respective due dates in the same way as *hundis*.

[Translation]

-(Name of Lender)

and our agent——————————is going to you to whom please pay Rupees———— debiting the same to my account.

Date————Signature [of borrower]————

Per broker ——————————————————

It is clear from the above that the *purjá* is an unstamped request to pay, addressed to an indigenous banker, who is asked to debit the borrower's account with the amount of the *purjá*. If after some time he does not wish to keep the loan outstanding, he states on the instrument the interest that he charges and takes it to a second banker, with an undertaking also written on the instrument from the borrower that the latter will pay off the amount on a specified date. The second banker then advances the principal with interest to date to the first, if he knows the borrower and is satisfied with his financial status. On the due date the loan is paid off to the second banker by the maker of the *purjá* with the interest specified on it.

Shroffs in Cooke's days.

It must not be supposed that all classes of indigenous bankers rediscount commercial instruments. For the bankers, who carry on lending-*cum*-agency business or trading-*cum*-banking, as described above, do not usually rediscount the *purjás* or

kalkattiáhs. This rediscounting business is done by *shroffs*, who also transmit funds through *hundis* drawn in one place of India and payable in another. Banking is their main, but not their only business, and it is they who form the nearest approach to modern bankers. They must not be confused with *poddárs* or mere money changers, although in some standard dictionaries *shroffs* are described as money-changers in India.[3] Before we consider their present position, it will be useful to look into their recent history. In the words of Cooke, "they possess extensive credit throughout the country and comprise some of the most honoured names in Indian society." (p. 13) Again, "the *Shroffs* have, for ages past, been considered the Bankers of the country. . . The profits of the *Shroffs* or Indian Bankers were considerable and some thirty years back [*i.e.* about 1830] they constituted by far the richest people of Bengal and Hindoostan and the countries appertaining to the Presidencies of Madras and Bombay. The most wealthy are to be found settled in Calcutta, Dacca, Patna, Benares, Mirzapore and Bombay but the class are to be found located over India wherever business exists" (p. 17).

3 The rivalry between *shroffs* and *poddárs* has already been referred to. (See pp. 74-75, *ante*). *Poddárs* are not bankers in any sense of the term. A description of them is therefore omitted. Some details are given in Martin's *Eastern India*, Cooke's *Banking*, *Calcutta Gazette* and Imperial Records.

At the time of Mansfield Commission.

The *shroffs* played such an important part in the Money Market that their views and their ways had to be considered by all Committees and Commissions appointed to inquire into the currency system of the country. We have already seen that the *shroffs* gave evidence before the earliest Committee, *viz.*, the Harris Committee of 1787. The next inquiry was held in 1866, chiefly to inquire into the operations of the Paper Currency Act (Act XIX of 1861).[4] The Commission sent a detailed *questionnaire* to Officers-in-Charge of various Treasuries all over the country. Of the 32 questions sent in this way, 5 refer to *shroffs*. These and their replies from the "epitome of Mr. Onslow's précis" are reproduced below from the report :—

Question No. 10. Are notes used much by the *shroffs* and Native Bankers for the purpose of remittance?	*Answer* No. 10. Yes, at certain places and centres of commerce ; but no, at the great majority of stations. The practice clearly depends on the convenience or possible profits of the Native Bankers.

4 Only one copy of the report of this important Commission is available in Calcutta. The Secretary of the Bengal Chamber of Commerce kindly allowed the writer access to it. The President of the Commission was His Excellency General Sir W. R. Mansfield, K.C.B. There were three non-official members, *viz.*, the Secretary and Treasurer of the Bank of Bengal and the Managers of the Oriental Bank and the Agra & Masterman's Bank. Mr. Denzil R. Onslow was the Secretary.

Question No. 11. Is it the practice of the *shroffs* and Native Bankers to exact discount in all cases of cashing notes?	*Answer* No. 11. The answer in the affirmative is almost unanimous.
Question No. 12. Do the *shroffs* and Native Bankers buy up the notes at a discount for the purpose of sending them to the head quarters of circles for encashment?	*Answer* No. 12. The answer is generally negative; but there are a few exceptions, which are not important, and perhaps have caused the alarm of the Accountant General.
Question No. 13. Do the *shroffs* and Native Bankers prefer the note to *hoondees* for purpose of remittance?	*Answer* No. 13. Answers negative, with very few exceptions.
* * * *	
Question No. 27. What is the opinion of large *shroffs* and dealers of money? Do they prefer a silver currency alone, as it at present exists, or silver, gold and paper?	*Answer* No. 27 General preference for gold, silver and paper almost unanimous.

At the time of Fowler Committee.

Although the view of the *shroffs* regarding currency measures had to be carefully considered in this way, their organisation was quite loose. For, even in important centres like Calcutta, a regular market for *hundis* had not been established as late as 1898. Thus in the Memorandum on Discount Rates in India submitted to the Fowler Committee by

Messrs. J. A. Anderson and H. M. Ross,[5] the position is described in the following words :— "Native Bankers have no fixed rate of discount, but each transaction a separate bargain, the charge varying with the standing of the drawers and endorsers and with the conditions of business. If things are going smoothly, small men get almost as good terms as wealthy ones, whilst threatenings of trouble cause a wide gap between the two. The usual accommodation is by Hoondis of 51 days' date, with two names." This description is followed by a table of rates charged by two indigenous bankers from January, 1897 to May, 1898 with the corresponding Bank of Bengal rates. In none of the numerous entries are these three rates the same.

Present day position described by different writers.

From the report of the Fowler Committee, Keynes reproduces a long extract from a letter by Mr. J. H. Sleigh, Secretary and Treasurer, Bank of Bombay to describe the operation of *shroffs* on that side of India, which also points out great divergence between indigenous and Presidency Bank rates. He therefore writes,[6] "How close a connexion exists between the two money markets—native and European—how nearly

[5] Papers relating to India, No. 30, Table A, Comparing Rates of discount charged by Native Bankers with Bank of Bengal Rates.
[6] *Indian Currency and Finance*, p. 196.

the rates ruling in one agree with those in the other, how readily money flows from one to the other, I am not clear." He contents himself mainly with conjectures. Mr. Findlay Shirras describes the relation in the following words[7]: —"In times of stringency the bazaar rate for first class *hundis* follows the Presidency Bank rate, but first class *shroffs* stop borrowing when rates rise much above 8 per cent. During the height of the busy season . . . . . . the *shroffs* who do this rediscounting business charge rates from 2 to 3 per cent. in Calcutta (and from even 1½ per cent. in Bombay, where the competition is keener) above the bank rate, and themselves rediscount with the Presidency banks at the latter's official rate, and thereby make a profit. . . . . . . In the off season those *shroffs* . . . underquote the bank to the extent of, say, 2 per cent, not in a fixed ratio of so much per cent. under bank rate, but according to the number of *hundis* offering for discount and the amount of ready money in the bazaar available for that purpose." This is the generally accepted view as embodied in most of the recent accounts of Indian banking.

But the relation is by no means so close as is imagined by these writers. This appears from the following table :—

7 *Indian Finance and Banking* (1924), pp. 340-343.

Indigenous Money Market in Calcutta.									European Money Market in Calcutta.			
Indian Date.			*Purja* Rate.		*Kalkattiah* Rate.			*Shroffs' Hundi* Rate.	English Date.			Imperial Bank Rate.
Sambat	Lunar Month	Day	1st Class	2nd Class	*Nakhoda*	*Bhatia*	*Churawalla*		Year	Month	Day	
1979	*Kartic Badi*	15	3	$3\frac{3}{4}$	6	$4\frac{1}{2}$	4	6	1922	October	20	4
1980	*Chyt Sudi*	9	$3\frac{1}{2}$	$4\frac{1}{2}$	9 to $9\frac{3}{4}$	$7\frac{1}{2}$ to $9\frac{3}{4}$	$4\frac{1}{2}$	...	1923	March	26	8
1980	*Bysakh Badi*	1	5	6	$8\frac{1}{4}$ to 9	...	...	$6\frac{3}{4}$	1923	April	2	8
1980	*Kartic Badi*	15	$3\frac{1}{2}$ to $3\frac{3}{4}$	4 to $4\frac{1}{4}$	$4\frac{1}{2}$ to $7\frac{1}{2}$	$4\frac{1}{2}$ to $7\frac{1}{2}$	...	$3\frac{3}{4}$ to $5\frac{1}{4}$	1923	Novmbr.	8	4

Reorganisation of *Shroffee* business.

The only way to bring the *shroff* into closer relationship with the Imperial Bank of India and the Indian Joint Stock Banks is to take away the deposits he attracts at present and give him instead increased facilities in the rediscounting business. He will then be able to avoid carrying money through the long months of the off season at unremunerative rates and thus be in a position to offer lower rates to the *bazaar* during the busy season. On the other hand, banks will be able to make better use of the new deposits through their up country branches, by lending in a busy area the deposits that are made in a slack area. The result will be the stablisation of the money rate throughout the country, the level being necessarily lower than the average rate of the present time.

Mahájan and *bunneah.*

Let us now turn our attention to the last link in the chain of indigenous banking, *viz.*, the village *mahájan.* Too often he is confused with a *bunneah*, just as a *shroff* is sometimes confused with a *poddár*. The distinction was pointed out by Sir A. P. Mac Donnel, G.C.S.I., in the course of his evidence before the Fowler Committee[8] :—"There are two sorts of loan transactions up country.

8 Minute of Evidence, Appendix, p. 212-3, Questions, 5753 *et seq*.

There is the loan by the *bunneah* or village money-lender, who deals with his own money alone and there is the loan by the *mahájan* or banker who deals with other people's money as well as his own. . . . The *bunneah* finances the cultivators. He largely, as a rule, deals in grain and he makes advances in grain and he gets return in grain. . . . . It seems to me that with the *mahájan* who lends other people's money the question of the general credit of the country comes in, and the state of trade, and the question of country generally, whether credit is good or bad, and whether the export trade has been good or bad."

Rural banking and its unsatisfactory features.

If the *mahájan* is thus dependent on the trade of the country, the trade of the country is also dependent on him. It is for this reason that we cannot do away with him. The truth is that he is often sought to be vicariously punished in the place of the real offender, the *bunneah*. But whoever may be the culprit, his vicious operations cause a havoc in the economic life of the people in the countryside. Firstly, because he charges an unconscionable rate of interest. Secondly, because he imposes iniquitous restrictions on his borrowers in the purchases and sales made by them. Thirdly, because he often lends money for uneconomic uses, *e.g.*, for ruinous litigation, for extravagant social ceremonies etc. In fact the conditions are no

better than those in Germany in the district where Raiffeisin started his first society in 1847. Co-operation must, therefore, be the sovereign remedy here as there. But cannot the village banker be made to adapt himself to the new conditions and thus help forward instead of hindering the co-operative movement? To answer this question, we must look into the causes which are responsible for the present evils. "There is ample authority for the conclusion that a determining factor in increasing indebtedness is the necessity felt by the money-lender of finding an outlet for his accumulating wealth."[9] So long as there are no land and industrial mortgage bonds for safe and convenient investment, he will be inclined to tempt "the people who live within his ken" into incurring debts even for purely unproductive purposes. Because he is so anxious to lend, he is fain to go without security. Because he has no security, he is obliged to charge usurious interest, as a sort of premium for insuring himself against bad debts. Because he charges high interest and also because he wants to keep his funds constantly employed, the poor *ryot* is in perpetual indebtedness. The vicious circle is complete! It is worse than the old system of *Einstellvieh;* the *human* cattle remains the creditor's property, although self-fed and living elsewhere!

[9] *Indian Co-operative Studies.* p. 35; article on *Prevailing Types of Rural Credit Societies* by H. Calvert.

Improved organisation wanted.

The remedy is not to supersede the system, however bad it may be, either by co-operative societies or by branch banking, but to adapt it to present-day conditions. Facilities for investment should be provided not only to tempt money from the hoards as suggested above, but also to wean the *mahájan* from uneconomic advances. On the other hand, the *ryot* must not only be provided with funds on easier terms but should also be taught the fatal consequences of costly extravagance. There is no royal road to success. In our zeal and enthusiasm, in our haste and impatience, let us not destroy before we create. Indigenous banking with all its evils has a place in the national economy of India. It is no part of statesmanship to do away with the system in order to do away with evils which are not inherent in the system. But this must not diminish our ardour for banking reform. It is frequently stated that for nation-building there must be adequate capital and effective mobilisation of the money resources of the country. But it is not generally recognised that it is not so much a question of nation-*building* as of nation-*saving*, for the nation is *dying* through poverty and ill-health, through unemployment and ignorance. The indebtedness of the *ryot* should not daunt us, for debt is simply another phase of credit. There is the necessary credit; there is also the necessary capital in the

country. The question is simply one of better methods and better organisation. It is as true today as when Lord Curzon first stated, "We are like some old-fashioned sailing ship, divided by solid wooden bulk-heads into separate compartments." These bulk-heads must be broken. All components of banking must be brought together. Not only this, banking must be linked to currency and currency to gold. The pioneers of modern banking began with currency reform more than a hundred and fifty years ago. It is time that we profited by their lesson.

INDEX.

[Words marked (G.) have been explained in the Glossary.]

GLOSSARY.

ARATDAR: a dealer, who gets a certain commission on the price of goods temporarily stored in his *arat* or godown by a whole-saler.

ARCOT RUPEE: the rupee originally coined by the Nawab of Arcot in the Madras Presidency and afterwards by the English, French and Dutch East India Companies. The weight varied from 171 to 177 grains and the quantity of pure silver from 160 to 170 grains.

ASWIN: name of a month according to Indian calendar.

AURANG (also AURUNG): a place where goods are manufactured; a depôt for such goods.

BADI: the dark fortnight, that of the moon's wane from full to the new moon.

BANIA: (from Sanskrit *Vanij*, merchant) a merchant-banker, who generally trades with his own capital.

BANTO: a class of persons in JAPAN, who resemble the *banyans* of India or the *compradors* of China.

BANYAN: (from Sanskrit *Vanij*) present meaning, an Indian broker attached to houses of business; formerly, a person in the employment of a private European gentleman doing analogous duties.

BATTA: (from Hindi *Batta*) agio; difference in exchange or discount on coins not current.

BATTAH: (also BHATTA) a special allowance granted to military officers under the East India Company.

BEPARI: an Indian wholesale-dealer.

BHATTA: modern form of BATTAH, q. v.

BUDLEE: a simultaneous purchase and sale of foreign exchange, etc

BUNNEAH: see BANIA.

CHURAWALLAH (also CHURUWALLAH): a class of up-country dealers in Calcutta, whose main business is the financing of consignments to the United Provinces.

COMPRADOR: (from Portuguese *Comprador*, purchaser) a responsible person who engages servants and acts as the pay-master of foreign merchants in China; the guarantee-broker and cashier of banks in China.

COOTEE: a branch or an agency.

DHANIJOG HUNDI: an inland bill of exchange written in vernacular payable to the purchaser or his representa-

tive. (See also SHAHJOG HUNDI).

DIWAN: the chief financial minister of the State or of a province vested with large judicial powers (during Muhammadan rule).

DURSANI (DURSUNNI): an on demand inland bill of exchange.

DUSTOOR (DUSTOORY): (from Hindi *Dastoor*, custom) the commission on a cash transaction charged by an agent of payment, with or without the knowledge or consent of his principal; a customary fee or perquisite.

FARMAN (FIRMAN, FIRMAUN): (from Persian *Farman*) an order, patent or passport issued by the sovereign.

GOMASTAH: (from Persian *Gumástah*, appointed, delegated) an Indian agent or factor.

GUCCHIT: a deposit, generally for safe custody.

HAT CHITA: a ledger account opened by Bengali or other Indian *Mahajans* in the name of their borrowers.

HOONDEE, HOONDY, HUNDI: an inland bill of exchange written in vernacular.

JAGAT SETH: literally, 'banker of the world'; a title of great honour for an Indian banker.

JOKHMI HUNDI: a bill of exchange and an insurance policy rolled into one; "A Jokhmi hundi is in the nature of a policy of insurance with this difference that the money is paid beforehand, to be recovered if the ship is not lost"—Bayley, J. in Raisey Amerchand *v.* Jusraj Virzpal, Bom., 25th July, 1871.

KALKATTIAH: a bill of exchange written in vernacular drawn and payable in Calcutta.

KHALSA: treasury.

KHATA PETI (new): a clean overdraft in the books of an Indian indigenous banker.

KHATA PETI (old): a compulsory deposit system in which deposits have to be accepted during the slack season at a stipulated rate in return for accommodation received during the busy season.

KHAZANCHEE: chief Indian cashier, frequently a guarantor of all loans granted, and of all bills discounted, by a bank.

KHOKA: the original *hundi* or inland bill of exchange written in vernacular.

MAHAJAN: (from Sanskrit *Mahá-jun*, a great person) an Indian merchant-banker of standing, who generally deals with other peoples' money as well as his own.

MEJUR NAMA: the fourth "copy" of a bill of exchange issued when the original, second "copy" and third "copy" have been issued, one after another, and all lost.

MOFUSSIL: the country stations and districts as opposed to the Presidency.

MUAZZAF: fixed revenue.

MUDDATI HUNDI: a usance inland bill of exchange written in vernacular.

MUNJUR NAMA: same as MEJUR NAMA, q. v.

MUQUASEMA: share of crops.

MUTSADDI (also MUSADDI): another name for BANYAN, q. v.

PAIT: the second "copy" of a bill of exchange in vernacular, issued when the original has been lost.

PALANQUEEN: a box-litter used for travelling in, with a pole projecting before and behind which is borne on the shoulders of 4 or 6 men.

PARIAH: name of a low caste in South India, hence an untouchable.

PAR-PAIT: the third "copy" of a bill of exchange in vernacular, when the original and the second "copy"

have both been lost. [The meaning given in Wilson's *Glossary* is incorrect as explained in the book.]

PODDAR : a money-changer or a teller; an employee of a bank whose duty was to weigh money and bullion and appraise the value of coins.

PURJA (in European banks) : an on demand joint and several promissory note along with a letter from the makers (generally two in number) undertaking to pay off the note on a stipulated date.

PURJA (among Indian indigenous bankers) : an unstamped request to pay addressed to an Indian indigenous banker carrying a stipulated interest, sometimes "discounted" among indigenous bankers.

RYOT : (from Arabic *Ra'iyat*, from *Ra'a*, to pasture) a tenant of the soil.

SAMBAT : year of Hindu calendar, dating from King Vikramaditya.

SETH : (from Sanskrit *Sresthi*) an Indian merchant-banker of standing.

SHA : (from Hindi *Sah*) an Indian merchant-banker of standing.

SHAJOG HUNDI : an inland bill of exchange written in vernacular, generally payable through a *Shá* or a respectable merchant-banker.

SHROFF (from Arabic *Sarráf*) an Indian banker of the highest grade dealing in bills; sometimes loosely used for the chief cashier or his assistants or even *poddárs* q. v.

SICCA RUPEE : (from Arabic *Sikká*, a coining die) a newly coined rupee.

SOWCAR : (from Hindi *Sáhukár*) an Indian merchant-banker of some standing. [Wilson mentions a facetious etymology in Marathi, *viz.*, *Sávakár*, from *sà*, six and *vakár*, the letter *v*, *i.e.*, "the six words beginning with *v*, which characterise the opulent banker,—*vastra*, dress, *vapu*, portly person, *vidyá*, knowledge, *vinaya*, decorous behaviour, *váni*, fluency of speech and *vitta*, wealth."]

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